Legislative Assembly of Alberta

The 31st Legislature
First Session

Standing Committee on the Alberta Heritage Savings Trust Fund

Monday, November 6, 2023
9 a.m.

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Standing Committee on the
Alberta Heritage Savings Trust Fund

Yao, Tany, Fort McMurray-Wood Buffalo (UC), Chair
Rowswell, Garth, Vermilion-Lloydminster-Wainwright (UC), Deputy Chair

Boitchenko, Andrew, Drayton Valley-Devon (UC)
Bouchard, Eric, Calgary-Lougheed (UC)
Brar, Gurinder, Calgary-North East (NDP)
Hunter, Grant R., Taber-Warner (UC)
Kasawski, Kyle, Sherwood Park (NDP)
Kayande, Samir, Calgary-Elbow (NDP)
Wiebe, Ron, Grande Prairie-Wapiti (UC)

Also in Attendance

Gray, Christina, Edmonton-Mill Woods (NDP)

Office of the Auditor General Participants

W. Doug Wylie	Auditor General
Nelson Robe-From	Principal

Support Staff

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

Standing Committee on the Alberta Heritage Savings Trust Fund

Participants

Ministry of Treasury Board and Finance
Lowell Epp, Assistant Deputy Minister, Treasury and Risk Management
Brittany Jones, Trader, Money Market, Capital Markets
Stephen J. Thompson, Executive Director, Capital Markets

Alberta Investment Management Corporation
Paul Langill, Chief Financial Officer
Amit Prakash, Chief Fiduciary Management Officer
Jean David Tremblay-Frenette, Chief Economist

9 a.m. **Monday, November 6, 2023**

[Mr. Yao in the chair]

The Chair: Good morning, everybody. I'd like to call this meeting to order and welcome everyone to the first meeting of the 31st Legislature's Standing Committee on the Alberta Heritage Savings Trust Fund.

My name is Tany Yao. I'm the MLA for Fort McMurray-Wood Buffalo and chair of this committee. I'd like to invite members, guests, and staff at the table to introduce themselves for the record, and we shall begin to my right.

Mr. Rowswell: Hi. It's Garth Rowswell, MLA, Vermilion-Lloydminster-Wainwright.

Mr. Bouchard: Good morning, everyone. Eric Bouchard from Calgary-Lougheed.

Mr. Hunter: Good morning. Grant Hunter from Taber-Warner.

Mr. Boitchenko: Good morning. Andrew Boitchenko, Drayton Valley-Devon.

Mr. Wiebe: Good morning. Ron Wiebe, Grande Prairie-Wapiti.

Mr. Tremblay-Frenette: Good morning. Jean David Tremblay-Frenette from AIMCo.

Mr. Langill: Good morning. Paul Langill from AIMCo.

Mr. Prakash: Good morning. Amit Prakash from AIMCo.

Mr. Thompson: Hello. I'm Steve Thompson from Treasury Board and Finance.

Ms Jones: Good morning. Brittany Jones, Treasury Board and Finance.

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

Member Brar: Good morning. Gurinder Brar, Calgary-North East.

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

Member Kayande: Good morning. Samir Kayande, Calgary-Elbow.

Mr. Kasawski: I'm Kyle Kasawski from Sherwood Park.

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

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

Mr. Koenig: Good morning, everyone. I'm Trafton Koenig with the Parliamentary Counsel office.

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

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

The Chair: Thank you, everybody, so much for that.

Before we move on with our meeting today, we should address participation via teleconferencing and videoconferencing for meetings of the committee. Section 6 of the Legislative Assembly Act permits members to "participate in a meeting of a committee of the Assembly by means of telephone or other communication facilities that permit all Members participating in the meeting to hear each other if all the members of the committee consent." The committee rooms here in the QE II Building are equipped to facilitate meeting participation via teleconference and videoconference, and committees do have the option of passing a motion, which must be agreed to unanimously, to approve meeting attendance via teleconference and videoconference for the duration of the Legislature or for a particular meeting or series of meetings. Passing such a motion for the duration of the Legislature does not preclude the committee from requiring that members attend specific meetings in person. In those cases, a motion would be moved at a previous meeting requesting that all members attend that specific meeting in person.

The wording of the potential motion to allow this participation for the duration of the 31st Legislature was posted on the committee's internal website. If someone would like to move that motion, we can display it in the room and debate it. Otherwise, other motions can be brought forward. With that, I'm going to open the floor to those in the room for some discussion.

Mr. Rowswell: Should I move the motion or . . .

The Chair: Just going to put it up on the screen here.

Mr. Rowswell: Okay. Fair enough.

The Chair: In which case, yes.

Mr. Rowswell: Okay. I'll read it out. I'd like to move that

> the Standing Committee on the Alberta Heritage Savings Trust Fund consent for the purpose of section 6 of the Legislative Assembly Act to remote participation by any member in the committee's meetings held at a designated committee meeting room in the Queen Elizabeth II Building during the 31st Legislature unless the committee carries a motion in advance of a meeting that remote participation of members is not permitted at that meeting.

The Chair: With that, does anyone want to have any discussion over this statement? If that's the case, does anyone disagree with this motion? Perfect. With that, I say that that decision is made. We can now do . . . [interjection] Oh, okay. All right. Let's do it officiallike.

With that, can I get all in favour of? All opposed?

Carried.

With that decision made, we can now do introductions for those joining us via teleconference and videoconference. As I call your names, please introduce yourselves. With that, we do have one. Mr. Nelson Robe-From.

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

The Chair: Thank you so much for that, sir.

We have no substitutions today.

Now, we do have a lot of housekeeping, seeing as this is our first meeting, so bear with me. I'd first note that the microphones are operated by the *Hansard* staff. Committee proceedings are live streamed on the Internet and broadcast over Assembly TV. The audio- and videostream and transcripts of meetings can be accessed via the Legislative Assembly website. Those participating by videoconference are encouraged to please turn on your camera while speaking and to mute your microphone when not speaking. Members participating remotely who wish to be placed on the speakers list are asked to message the committee clerk, and those in the room should signal the chair or the committee clerk. Please set your cellphones and other devices to silent for the duration of the meeting.

A draft agenda for today's meeting was made available to all members. Does anyone have any changes or additions to the draft agenda? If not, would someone like to move a motion to approve the agenda? Mr. Wiebe. All in favour? Anyone opposed? Thank you very much. Carried.

All right. As this is our first meeting, I'd like to provide members a little bit of information about the committee, its mandate, and the meeting procedures. The mandate of this committee is found in section 6(4) of the Alberta Heritage Savings Trust Fund Act. A link to the act can be found on the committee's internal website. In accordance with section 6(4) of the act the committee's primary functions are to receive the fund's quarterly reports, to approve the annual report, and review the overall performance of the fund. Additionally, the act requires that the committee hold public meetings with Albertans. This has traditionally taken the form of an annual meeting, during which members of the public are invited to pose questions about the fund in person, over the phone, and through e-mail and social media. We will discuss these more in detail in item 7 of the agenda.

Meeting schedule. The heritage fund's quarterly and annual reports become available in February, June, August, and November, and the committee meets shortly afterwards to review them. The committee also has its annual meeting with the public near the end of the calendar year. The meetings are called at the discretion of the chair. When possible, the chair will poll committee members for their availability when choosing a date and time. Once a date and time are set, the meeting notice is mailed to the members and other relevant parties. The draft agenda, meeting minutes, and any briefing materials are made available to members on the committee's internal website prior to the meeting.

During meetings the chair maintains a list of members who indicate that they wish to speak, and an effort is made to ensure that all members have an equal opportunity to participate in discussions and ask questions. For questions which may require a more detailed response, members may read questions into the record and request that a written follow-up response be provided to the committee. To minimize interruptions during proceedings, I'd also ask that members participating remotely through teleconferencing and videoconferencing send a message or e-mail to the committee clerk if they wish to be added to the speakers list during discussion on a particular item of business.

After the chair has conducted a vote known as a voice vote on a motion and has announced whether the motion is carried or defeated, a member may request a recorded vote. The process for conducting a recorded vote has been modified a bit since the last Legislature to more closely follow how divisions are conducted in the Assembly. The chair will ask all members in the room in favour of a motion to raise their hand, and the committee clerk will state their name and record their vote. Those in the room opposed to the motion will then be asked to raise their hand and state their name for the committee clerk to record their vote. The chair then asks those participating via videoconference who wish to vote to turn on their camera. The committee clerk calls the names of those with their cameras on to state their vote and then records it. The chair will then ask any members who have not voted and wish to do so to state their name and vote. Anyone teleconferencing should vote at this time. Finally, the committee clerk tallies the vote, reports the totals for and against the motion to the chair, who declares whether the motion was carried or defeated. Please note that in accordance with Standing Order 32(5) members may abstain from voting.

A member who may be unavailable for a meeting of the committee may designate another member who is not on the committee to substitute for them. Standing Order 56(2.1) outlines the process for substitution of committee members. Standing Order 56(2.1):

> A temporary substitution in the membership of a standing or special committee may be made upon written notification signed by the original Member and filed with the Clerk and Committee Chair, or through an email communication sent directly from the original Member to the Clerk and Committee Chair, provided such notice is given
> (a) on a business day, not less than 24 hours prior to the meeting for the substitution of the Chair or Deputy Chair, and
> (b) prior to the scheduled start of the meeting for the substitution of any other Member.

An e-mail substitution template is available through OurHouse, and the committee clerk can provide a template upon request. The substitution form must be sent from the committee member's own Legislative Assembly e-mail account address. Alternately, the member may submit a letter that they have signed to provide notification of the substitution. The staff member or another member cannot authorize a temporary substitution on behalf of the committee member. When substitutions occur, it is the responsibility of the original committee member to ensure the committee has been provided with all the necessary meeting material. Any Member of the Legislative Assembly who is not a committee member or an official substitute may attend and participate in committee meetings, but they may not move motions or vote.

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The committee relies on the technical expertise of officials from the Ministry of Treasury Board and Finance and the Alberta Investment Management Corporation in its review of the heritage fund. The TBF officials administer the fund and produce a quarterly and annual report that the committee is charged with reviewing, and AIMCo is responsible for the day-to-day investment decisions of the fund. Officials from TBF and AIMCo will have the opportunity to go into more detail regarding their roles under the next item of business.

Legislative Assembly Office staff from Parliamentary Counsel, research and committee services, and communication services support the committee to conduct roles and prepare for the annual public meeting. I'd like to give a brief overview of their roles in relation to the committee. Parliamentary Counsel is available to assist the committee if it requires legal advice. We have the communication services, which provides the committee with communication support, particularly related to the annual public meeting, which we'll discuss later this morning. Research services can provide the committee with research support if necessary. The committee clerk provides general administrative and procedural support and is the primary point of contact for the committee, so if you have any questions, please reach out to him.

The committee is also provided support from the Auditor General and his staff. The Auditor General is the independent auditor of the heritage fund that reviews the fund's financial statements and supports the committee during meetings. I'd invite the OAG staff to please explain the role of the Auditor General with respect to the heritage fund and this committee.

Mr. Nelson Robe-From.

Mr. Robe-From: Good morning. Thank you very much. The mandate of the office of the Auditor General in relation to the fund is twofold, firstly to provide an audit opinion on the fair presentation of the annual financial statements of the fund in accordance with public-sector accounting standards; secondly, our office also has a performance audit mandate to examine the economy, efficiency, and effectiveness of government programs and processes to provide assurance that they are working as intended.

The Chair: Thank you for that, sir.

We'll now move on to the fund's 2022-23 annual report. Ms Gray.

Ms Gray: Thank you, Mr. Chair. I just wanted to ask a question on the committee orientation information you've shared with us. Understanding that the quarterly report and the annual report have been prepared for us and had been waiting since June, I realized that this meeting needed to happen as quickly as possible. I noted you said that when possible you will be polling for potential meeting dates, and I just was hoping to have a commitment from you that in the future we would be polling for suitable dates for all members, because this one was very short notice. Yeah. I just wanted to test on that point if you wouldn't mind.

The Chair: Agreed, Ms Gray. For everyone's record just the timing of the election combined with a few other factors led to some reports being overdue in there on the public record. So we need to have this committee – the members weren't even appointed at that time, so we're now playing catch-up, so we'll be going through two reports today. For the future we will certainly poll all members to make sure there's a mutually agreeable time and place, especially for the House leader of His Majesty's Official Opposition, to ensure that her team is prepared as well.

The fund's '22-23 annual report. The fund's annual report is provided by Treasury Board and Finance and, as stated in the Alberta Heritage Savings Trust Fund Act, must be reviewed and approved by the committee – and that refers to all members and the Clerk of the Assembly – before it can be released publicly. The report was posted to the committee's internal website for members to review.

We are pleased to have officials from Treasury Board and Finance and AIMCo here to assist us with our review. I'd like to turn it over for them to first make some opening remarks about the rules with the fund and the committee and then ask them to speak about the annual report.

Please.

Mr. Thompson: Thank you, Mr. Chair. Good morning, committee members, honoured guests. My colleagues and I are here to represent the Department of Treasury Board and Finance. My name is Steve Thompson. I'm the executive director of capital markets. I'm joined by Lowell Epp, the assistant deputy minister of treasury and risk management, and Brittany Jones, who is our senior manager of analytics and research.

As you're aware, the heritage fund operates under the authority of the Alberta Heritage Savings Trust Fund Act, which states in part that "the mission of the Heritage Fund is to provide prudent stewardship of the savings from Alberta's non-renewable resources by providing the greatest financial returns on those savings for current and future generations of Albertans." Section 3 of the act requires that investments of the heritage fund "must be made with the objective of maximizing long-term financial returns." This section of the act also requires that the appropriate steps are taken to balance the risk and return such that the fund may obtain sufficient investment return to enable it to meet its objectives.

To help achieve these stated objectives, the department of Treasury Board and Finance is tasked with supporting the minister in the development of the fund's long-term investment strategy and then providing ongoing operational support services, which include research and analytics into investment policy improvements, monitoring of investment performance, preparation of annual and quarterly reports for the fund, and producing an income forecast for the fund. The department is responsible for developing and maintaining the statement of investment policies and goals to provide guidance to the heritage fund's asset manager, AIMCo, who executes the required investment management functions on our behalf. TBF also has the responsibility for advising the minister when changes to the investment policy may be required to enable the fund to continue to meet its stated objectives.

The policy may be reviewed and revised at any time, but the department must formally review the policy at least once every calendar year. Significant events that may prompt a review include a fundamental change in the requirements and objectives of the heritage fund, significant revisions to the expected long-term trade-off between risk and reward on key asset classes, a significant change in the financial risk tolerance of the province, shortcomings of the investment policy that emerge in its practical application, and changes in any applicable legislation. AIMCo is consulted on material changes to policy prior to these changes being recommended to the minister as they are responsible for executing the investment management functions required to implement the policy.

With that introduction, I'm pleased to present the annual report of the '22-23 fiscal year results for the Alberta heritage savings trust fund. As previously stated, the legislated objective of the heritage fund is to maximize long-term financial returns while balancing the risk of losses. In '22-23 the Alberta heritage savings trust fund realized a return of 2.6 per cent over the fiscal year and grew by $2.5 billion from the previous year's market value to a market value of $21.2 billion.

The heritage fund's growth during the fiscal year '22-23 was primarily driven by government action rather than by investment returns. Legislative changes were enacted that allowed the heritage fund to retain $1.25 billion in investment income from the 2021-22 fiscal year, and strong fiscal results allowed government to make a one-time deposit, $753 million, into the fund, the first such action since 2008. The fund's remaining growth came from a $626 million increase in unrealized gains, off-set by $114 million in investment losses. The fund generated gross earnings of $20 million, resulting in a net loss of $114 million after investment expenses of $134 million were taken into consideration.

This is only the third time that the heritage fund reported a net investment loss since its inception in 1976. Net investment earnings were $1.9 billion lower than estimated in Budget 2022. The primary driver of this performance was the challenges faced by global financial markets during the first half of the fiscal year. After inflation-proofing there was no investment income available to be transferred to the general revenue fund during the fiscal year. Again, this has not occurred since the global financial crisis of 2008.

The investment strategy for the heritage fund is established with a long-term view. The focus continues to be on maximizing long-term returns and not overreacting to short-term events. Measuring performance over the longer term catches changes in the economic cycle and provides a broader perspective. The fund has a target return of the Canadian consumer price index plus 450 basis points measured over a five-year rolling period. The target return over the period was 6.7 per cent. This target has been steadily increasing as inflation persists. Over five years the fund returned 6.4 per cent, which is 30 basis points lower than its CPI target return. Over the last 10 years the heritage fund has earned an average annual return of 8.4 per cent.

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The fund also has a target return to help determine the investment manager's ability to add value through the active management of investments. The target is that the return of the heritage fund should be at least 1 per cent higher than the returns of a passively managed portfolio. For five years the manager has delivered an active return 40 basis points above the passive benchmark. Despite the macroeconomic challenges and negative returns recorded in the first half of the year, the fund's 2.6 per cent return for fiscal '22-23 did outperform its passive benchmark by 1.2 per cent.

Rising interest rates in Canada and in most other global markets had an outsized influence on markets and investment returns during the year. Rate increases had the most significant impact on the publicly traded assets held within the equities and fixed-income asset classes. The decline in equities and fixed income in concert and of this magnitude has not been witnessed in the past 40 years.

The heritage fund did benefit, however, from its allocation to inflation-sensitive and alternative assets as these classes tend to perform well in a high-inflation economy. These assets include infrastructure, real estate, renewable resources and returned 8.4 per cent over the fiscal year. Over the same period fixed-income investments returned .0 per cent, and equity investments gained .2 per cent. Overall, the fund remains well positioned to meet its target returns in coming years.

With that, I will conclude my remarks and allow my friends from AIMCo to introduce themselves.

Mr. Prakash: Thank you, Mr. Thompson. Good morning, all. My name is Amit Prakash. I am the chief fiduciary management officer at AIMCo. I'm joined this morning by Paul Langill, to my left, who is the chief financial officer, and Jean David, who is the chief economist of AIMCo. Our plan this morning, Mr. Chair, is for each of us to take two or three minutes. I'll start with providing a bit of an overview to the committee of AIMCo given that some of you are new to the committee, Paul will speak to the corporate strategy briefly at a high level, and Jean David will speak to the economic outlook, including a quick look in the rear-view mirror.

AIMCo was founded in 2008 by the government of Alberta as a cost-effective investment manager for a host of investment mandates that are managed for Alberta-based entities. From our early days, from 2008, we've grown now to manage $164 billion across 17 clients, which we do across 29 mandates. For many clients such as the government of Alberta we manage more than a single mandate, including the heritage fund.

Over this 15-year journey we've developed capabilities across a host of asset classes, so anywhere from public equities, fixed income, private equity, infrastructure, et cetera. We also work closely with and have developed partnerships with industry-leading players that allow us access to investments across the globe to the benefit of our clients, and over that journey new areas of opportunity, as they evolve, get added to the menu that our clients invest in such as private credit, renewables, and, in the near term, energy transition. In all of these dimensions there are attractive risk-adjusted returns that our clients have access to.

And then lastly, this partnership with the heritage fund has been very productive, and it continues to grow. We've added cumulatively about 1 and a half billion dollars in excess returns to the heritage fund over the last 10 years even as the heritage fund has grown to $21.2 billion. Finally, as Mr. Thompson mentioned, over the 10 years the heritage fund has delivered 8 and a half per cent returns annualized and exceeded the policy benchmark by approximately seven basis points per annum.

Finally, we work closely with our clients, including the TB and F team, both to implement the investment strategy as managers but also in a consultative manner with providing research and advice to the TB and F team and other clients in support of the mandates.

With that, I'll turn it over to Mr. Langill.

Mr. Langill: Thank you, Amit.

Good morning, everyone. As Amit mentioned, Paul Langill, chief financial officer for AIMCo. I'll provide a few brief comments on our strategy and our objectives. Our purpose at AIMCo is to help our clients secure a better financial future for the Albertans they serve, our clients serve. Last year we did spend a lot of time developing our refreshed corporate and investment strategies, really with the objective of becoming a higher performing, more client-centric organization. We are delivering on our corporate strategy by focusing on improving client trust and service; creating a more adaptable investment platform, which requires some investment and updates in our technology and data; and executing on our people strategy to build the capacity and capabilities we need to better service our clients. We are reviewing our operating model as we move forward.

With that, I'll pass it over to Jean David for some comments on the economy and markets today.

Mr. Tremblay-Frenette: Thank you, Paul.

I'm glad to be with all of you today. Please call me JD going forward, instead of Jean David.

On that note, talking about the economy, the global economy, since the pandemic we've seen that supply chains have healed on a global basis, and that's good because it means that the inflation within the goods sector has actually come back and normalized itself. Now, one of the problems that we're facing is inflation on the services side, as consumers have been benefiting and enjoying lots of excess savings through the help of government transfers during the pandemic.

On the one hand, the labour markets in developed countries such as Canada, the U.S., the U.K., and the eurozone have started to become less tight. We've observed a drop in job openings and also in the number of workers that are jumping ship to other companies. This is a sign that the job market is gradually coming more into balance. Now, as this process unfolds, we should begin to see less pressure coming from workers to get higher wages. In turn, services inflation should continue to decrease in the next little while, over the span of 2024, although in Canada it might be a bit conditional on rents actually decreasing as well, which we have yet to witness. Overall, we do expect headline and core inflation, so inflation excluding energy and food prices, to end in 2024 at lower levels than currently experienced but still above the 2 per cent target of most central banks in the developed world.

Now as consumers are depleting their excess savings, growth is expected to slow down significantly in 2024 in advanced countries, and that should ultimately trigger a round of policy interest rate cuts from the various central banks, beginning probably in the second half of next year. That could provide some relief to households and businesses.

In summary, picture a tree branch, and you have a host of canaries lined up. The U.S. canary is actually chirping; Canada, China, the U.K., and the eurozone are no longer chirping. Actually, they're seeing their heads circling with the canaries because they are on the verge of potentially being somewhat knocked out. That's a summary of what is going to come about for us in 2024.

9:30

The Chair: Thank you very much for that presentation.

We'll now turn to the questions on the annual report. In the last Legislature the chair of the committee kept a list of those who would like to speak and recognized members to ask one question and one brief related follow-up question. As much as possible the chair alternated between caucuses for the questions, and if there are no concerns with that, I would like to continue with that approach for this committee. Does anyone have any questions or comments about that?

Seeing none, with that settled, I just want to remind members that during debate, to get on the speakers list, those in the room are asked to signal the chair or the committee clerk, and members participating remotely should send a message to the committee clerk via your computer there.

I'd like to now open the floor to the committee members to ask questions of our guests, and, oh, lo and behold, Mr. Brar has a question. Please proceed, sir.

Member Brar: Thank you, Mr. Chair. My first question is that I can see on page 5 of the annual report that the fund's investment return was 2.6 per cent, and it is written on the highlights page the five-year return of 6.4 per cent. In the previous year it was the annual return whereas this year it is written as the five-year return, so basically the consistency of the reporting on the highlights page was missing. I believe that it should be consistent. If it was a one-year return on the previous year, it should be a one-year return on this year so that we can have a consistent idea of what's happening. In this case it was different reporting last year. It is different reporting this year.

If we compare some data, we can see that this average of 2.6 per cent is below the five-year average, which was 6.4 per cent, as mentioned here, and that was even below, then, the 10-year average of 8.4 per cent. So my question is: why is this not consistent, and based on the numbers, why is AIMCo not reporting it as it should be?

The Chair: Mr. Thompson.

Mr. Thompson: Yeah. This is actually a report of Treasury Board and Finance, not AIMCo. The stylistic presentation has changed, yes, but the information is all contained within the report. But we will certainly take your comments back to our communications division. With respect to consistency, I take your point.

The Chair: You have a follow-up, Mr. Brar?

Member Brar: Yeah. My follow-up would be for AIMCo. Basically, this return has gone down from previous years. These numbers tell a story that AIMCo is not getting some good results if we compare from a decade to five years to one year. So, like, what is being done to improve that, and why has this return gone down?

Mr. Prakash: Thank you. Thank you for the question. When we implement the strategy for the heritage fund, our focus is delivering on the investment objectives over the long term. We recognize that from time to time in the markets, you know, markets will go up and down, and particularly what has impacted the markets, as was said as part of Mr. Thompson's opening remarks, is the fact that inflation has gone up, interest rates have gone up, and therefore that's impacted part of the portfolio. The reason that the return for the fiscal year '22-23 is 2.6 reflects those market dynamics.

However, as you correctly were looking at the five-year and 10-year, you get a better sense of how the portfolio is designed and what it's able to deliver over the longer business cycle, recognizing that things will go up and down. As JD mentioned, things may slow down next year. Interest rates may start to come off, but the portfolio is built and designed to work well across different cycles, knowing that some years will be low and some years will be high.

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

With that, we now go to Mr. Rowswell.

Mr. Rowswell: Thank you. Thank you for coming. Nice to see some of you guys again. I'd like to start by asking a few questions about the performance, to build onto the last question. Just what classes of investments have performed well, and which ones have performed poorly? We've gone through some turbulent times this last year, and I was wondering if that has changed your long-term strategy at all and if you can expand on what you expect for 2024 and if you expect inflation to improve and interest rates to decrease. You mentioned a little bit about that, but if you could just expand on that a little bit.

Mr. Prakash: Absolutely. Happy to do that. I'll start with the first part of your question, describing what has driven performance for the fiscal year, and we'll turn it over to JD to look forward into the question around the interest rates and expected inflation.

In terms of the returns for the period, it is driven by the following. The asset classes that performed strongly included infrastructure, up 13 per cent; renewable resources, up quite strong; private debt, up 6 and a half per cent; and even the money market, given Bank of Canada activity, has also delivered returns over the period. On the other side of the ledger, the strategies or the asset classes that performed poorly included emerging equities, Canadian equities, and private equities, after having a stellar set of years, down 1.77 per cent. Now, if you zoom out and look at the longer term, certainly these asset classes look a lot more attractive rather than that one fiscal year.

Then, lastly, in terms of the investment strategy, we remain focused on the longer term and ignoring the noise from the market, because at any point in time there are various things happening in the market constantly. So the two-part answer is on a more granular level.

How we position the heritage portfolio tactically: we've been constructive and relatively risk averse, if you will, and that has served well. But over the longer term the introduction of new investment subasset classes, if you will, such as renewables, such as private credit, and the evolution of the asset classes that we have: that has served well as you look at the asset classes that did well and did poorly across this period.

JD.

Mr. Tremblay-Frenette: Thank you, Member Rowswell. Two elements are interconnected for us to be cautious on the macroeconomic outlook. The first one is that inflation, we believe, for a host of reasons is not slated to diminish back to the 2 per cent target of the Bank of Canada, for instance, domestically. There are many reasons for that, but the trend is the proper one. Inflation is indeed decreasing. However, the question is how fast it could be going back to the 2 per cent target. The Bank of Canada is forecasting that this could happen by sometime in 2025 only, not next year. We are of a similar view to that as well.

Then it begs the question: what is that second element of the interplay here? It goes back to the central bank reaction function. Central banks, the Bank of Canada, for instance, would be glad at some point to provide some relief to everyone by reducing policy interest rates. However, it is conditional on how successful their policies can be in trying to tame inflation. And given that we believe there's going to be a little bit of a delay in trying to get much closer to the targeted 2 per cent inflation rate for headline inflation, well, then it means that we are in for a higher-rates-for-longer type of environment, which at some point will make it more challenging for households and businesses to conduct their regular affairs. That is why growth will be slowing down much more significantly at some point in 2024.

I hope that provided some more details.

Mr. Rowswell: Yeah. I know that relative to classes, like, this has probably been a tough year for bonds, you know, just the value of them, right? That's how they work. I was just curious: are you going to take this opportunity to lengthen the duration, or is it too early to do that? Like, have you had a shorter duration over the last 10 years, and is this an opportunity to lengthen it, do you think?

9:40

Mr. Prakash: We were effectively in that mode, and we've reduced, if you will, our relatively shorter position in duration. Our current investment guidelines allow our teams to be plus/minus one year duration relative to the benchmark, which is roughly around seven and a half years. So we certainly, you know, use that limit prudently but use that in conjunction with whatever else might be going on in the portfolio. Over the longer run we do recognize that a big portion of the performance of investment pools of capital such as the heritage fund is driven by the longer term asset allocation, but over the shorter term we clearly make those changes.

Then the last one I'll add, which we did in conjunction, working closely with the TB and F team, was to change the limit that we are allowed to invest in private debt and loans, which has a very short duration, roughly 90 days, as opposed to the bond vehicles, which are multiyear. That has been profitable for the fund, and the private debt and loan pool is up about 6 and a half per cent relative to flat for the bonds. So those are some of the types of things that we do in the portfolio.

Mr. Rowswell: Thank you.

The Chair: Thank you.

With that, we go to Mr. Kayande.

Member Kayande: Thank you, Mr. Chair. A quick question about the policy review that you alluded to, Mr. Thompson. As far as I'm aware – I think that the previous committee asked about this in March – I don't believe that there's been a policy review done since 2020. I may be wrong on that, so please feel free to correct me. I guess my question is that there is supposed to be a policy review that's done, you know, regularly. Then the second thing is that, as you pointed out, there have been major changes in risk-reward trade-off. What is the status of that, and have you had any discussions with TBF about that? Do we have a plan in place?

Mr. Thompson: Yes, we do have a plan in place.

Member Kayande: That's great.

Mr. Thompson: The policy was last updated in January of '23, so the policy is continuously updated. What you're alluding to is a formalized asset mix study. We did an RFP to select an external service provider to assist us in that project, which is currently ongoing. That RFP was awarded in February . . .

Ms Jones: Issued in February . . .

Mr. Thompson: Issued in February. Sorry.

Ms Jones: . . . and we selected somebody in June.

Mr. Thompson: Yeah. We had selected a partner in June. We are working with them currently. The plan would see that formalized review finished towards the end of the fiscal year. They have been in consultation with AIMCo and ourselves. We are taking into consideration the legislative changes that have since been made to the plan, the changes to the inflationary environment, global macroeconomic conditions, and changes broadly to asset classes. These are all things that will be considered under this formalized review.

But that is, in fact, separate from – when we say that we do review this policy annually, that is done with not less rigour but less focus. It assumes that the policy in place is robust. We will test it for weakness with our partners at AIMCo, typically, and internally, but this external piece is much larger. It is, again, in the context of sort of changing fundamentals around the plan.

Member Kayande: Thank you for that. That's really encouraging, and I'm very pleased to hear that.

What kind of changes would – like, what's the difference, then, I guess? Like, in January, the annual review: what will you have done this year compared to the broader . . .

Mr. Thompson: Happy to expand on that. Mr. Prakash alluded to changes that were made in the private debt and loan portfolio. Those did require small changes to policy. Allowable ranges changed by 1 or 2 per cent, I believe?

Ms Jones: Two and a half.

Mr. Thompson: Two and a half per cent. Thank you. It's why I bring her.

Two and a half per cent to allow for a greater investment in that asset class because it is providing greater returns and is more appropriate in the current financial market conditions.

What we're looking at with the broader piece with our external partner is a full recast of the asset allocation potentially, a review and a potential recast of the asset allocation as we currently know it, and possibly more significant changes to the statement of investment policies and goals, again, to reflect changing direction of the fund or changing legislative authority on the fund and different inflationary and global market dynamics.

The Chair: We'll go now to Mr. Rowswell.

Mr. Rowswell: Yeah. Page 10 of the annual report mentions how the fund's per capita market value peaked in 1983 at $12,380 per Albertan and since has declined to a recent value of $4,500, roughly, per Albertan. The decline resulted from allocation of resource revenue to the fund being terminated and the fund's earnings being transferred to general revenue and Alberta's rapid population growth, especially currently. Given that the fund is now able to retain all of its investment income, how can we expect the per capita value to increase once again?

Mr. Thompson: Sorry. Happy to answer that. You know, it does involve forecasting the future, which is difficult, as we know. The significant growth that we saw in the heritage fund over the years has been while funds were being contributed and retained, so we can expect that the fund will grow more quickly, assuming that all investment income is retained in the fund, obviously. Really, to achieve a higher per capita increase, that rate of growth simply has to exceed the rate of population growth in the province.

I don't know if AIMCo wants to add anything to that.

Mr. Prakash: No. I think Mr. Thompson covered it well. It's a function of what the denominator is, how many – you know, what the population growth is and how the dollar value of the fund grows, and that is both a combination of the contributions or retention as well as the growth in the markets. The forward-looking view, in terms of the expected returns from the market, is potentially lower relative to over the last 10 to 20 years. Some of it has given the interest rate cycle, amongst other things, and potentially a higher level of inflation. But that said, it's the combination, again, of the growth in the markets, the contribution and retention, and then the population growth.

Mr. Rowswell: Has any information or goal of how big that would like to grow to – like, is there a number that we have, that you have, that you've been shown, that we'd like you to get it to?

Mr. Thompson: We don't currently have a target for that. We've had the single contribution to the fund since 2008, and we haven't retained income in the fund in the same period, so it's hard to judge. Once we have direction from government, we can probably project some things.

Mr. Rowswell: Sure. Fair enough. Okay. I appreciate that.
Thank you.

The Chair: We'll now go to Mr. Kasawski.

Mr. Kasawski: Thank you, Chair. The question I have – I'm just not sure if I direct it towards you or that direction.

The Chair: Yes. Through the chair.

Mr. Kasawski: Okay. Great.

In the strategy for the heritage trust fund there is a description of opportunistic investment, and the investment manager is able to use up to 2 per cent of the fund for opportunistic investment. For me, I'm just looking for an example, maybe from this previous fiscal year, of the use of an opportunistic investment. If there's not one from the most recent year, if they can go back further and give an example and just give us as fulsome an explanation of that as possible, just so I understand how they use that ability and that strategy.

The Chair: Thank you, sir.

Mr. Prakash: Thank you. Great, great question and very, very topical. We use the opportunistic bucket particularly for investment opportunities which do not fit very neatly and cleanly into the more traditional asset classes, and that is simply a reflection of how the markets have grown over the last 30, 40 years.

9:50

We see that already in fixed income. For example, if you looked at fixed income 20 years ago, you would see investment grade, noninvestment grade, by and large. If you look at it now, there's a whole range of investment activities, anywhere from liquid high yields to private credit, direct lending, loans, et cetera. Within the opportunistic pocket you'll see that the allocation that the heritage fund has is a very small number, .3 per cent, and these are legacy investments from over five, seven years ago. We haven't been active in that space.

We are, however, working closely with Mr. Epp and team and our other clients on an opportunity on energy transition, where we think there are attractive investment opportunities across the globe to harness the premium or the excess returns that one can invest by taking advantage of the opportunities and transitioning companies which otherwise have really good business models but have been punished by the market given their energy characteristics.

We do expect, as we are working through the clients, that next year we would be able to start making investments in this opportunistic bucket, again, with an eye to seeking attractive risk-adjusted returns on behalf of our clients.

The Chair: Do you have a follow-up, sir?

Mr. Kasawski: I have sort of two. Am I allowed to try to string them into one?

The Chair: I'll give you some leeway there.

Mr. Kasawski: In the money market section it feels like it's a smaller amount – I just want to make sure; I might be remembering that wrong – than we can take advantage of. Then, with regard to that – I guess that would be $420 million – just help me understand the oversight that has to be gone through in order to place an investment. If you're allowed $420 million, that you're allowed to put into opportunistic investments, what is the oversight that goes into making a decision like that or a placement like that?

Mr. Prakash: We have a very formalized governance structure in place, but the first part of the journey is the client mandates across all our funds, including heritage, in terms of what we are allowed or not allowed to do, and how those clients instruct us is the statement of investment policy, which specifies that you can do X per cent in equities, Y per cent in money market, et cetera.

The second part that governs that process are product descriptions, which describe the money market pool, the types of investments we have, the concentration risk, the return targets, the excess return targets, et cetera. That's a pretty formalized documentation of what that pool or investment vehicle is supposed to do. Internally it goes through a rigorous process, and ultimately the AIMCo board will sign off or approve the pools, and that process continues to evolve in becoming more efficient. That's, effectively, the process.

Then, last but not the least, is reporting of the performance to the heritage fund. It describes that fully, including the holdings, et cetera. Finally, there is an audit process that reviews the money market in addition to all of the other investments in the pool.

Mr. Thompson: I would just add to that that our role at Treasury Board and Finance, with respect to those allocations, is to ensure that any products still meet our required risk and return parameters. Transition of finance, for example: we would expect that that be analyzed purely for its economic and financial returns and that they would be additive to the fund in some way. That is our oversight role with respect to those pieces.

The Chair: We go now to Drayton Valley-Devon. Mr. Boitchenko.

Mr. Boitchenko: Thank you, Mr. Chair. I would like to ask about the ways you measure risk of the equity assets in the portfolio and specifically on: what are the specific metrics you use to determine a risk?

Mr. Prakash: Thank you. That question is near and dear to our hearts because we love numbers. For equities, like other asset classes, we look at a multitude of metrics. Just to give you a flavour of some of the things we look at for equities, first and foremost, we measure something called the beta of the equity portfolios, and what this measures is how an equity portfolio behaves relative to its benchmark, relative to the market. Effectively, what it does is that if you see a beta of, let's say, 1.2, what that tells you is that the portfolio is taking potentially a greater amount of risk than its benchmark, than the market. That's one metric we use.

We look at another metric called the tracking error, and what the tracking error does is that it looks at the dispersion that your portfolio has relative to the benchmark on which the policy mix is set by clients. That effectively sees that if the dispersion is really large, then your portfolio is doing something different than the benchmark, and if the dispersion level is low, then it's doing something that is similar to the benchmark while taking its active positioning. That's the other thing we do. These measures: if you will, one can think of them as statistical measures that are esteem measures.

We also have other risk parameters that are more guardrails in nature such as country exposure, sector exposure, single-strategy exposure, single-security exposure such that that forces the portfolios to be diversified across all dimensions, countries, sectors, single securities, et cetera. That's the gamut of the risk measures that are applied to equities.

Finally, at the overarching level we also look at the risk at the total portfolio level, which obviously looks at the equity component, but it also looks at how the equity risk behaves relative to other components of the portfolio, so that gives a 360 view of the risk within the portfolio.

Mr. Boitchenko: So there are checks and balances to determine the risk there. Okay. Thank you.

I have a follow-up if I can. Can you talk about the ways you manage equity investments against inflation, currency, and interest rate risks in these uncertain economic times?

Mr. Prakash: Again a great question. You know, we spend a lot of time thinking about that. Firstly, I'll just take it in that sequence. On the currency risk side the place we start is, again, with what the client's benchmarks or objectives are. Our equity benchmarks, or our clients' equities benchmarks, are currency unhedged in that there is exposure to foreign exchange as part of the equity exposure, so we utilize that as a starting point before we decide to hedge in certain cases or not. That's number one.

Number two, on the inflation and interest rate risk side the mechanism typically of the pass-through of those metrics or those macroeconomic conditions impacting the portfolio is from a growth perspective, from an earnings growth perspective, as well as the growth of the overall economy and how that impacts different economies. Our positioning of the portfolio in a more conservative manner is driven by those decisions, including how much active risk we're taking in these portfolios. If you look at our current active risk, for example, in equities, it's running at a relatively low level relative to the limits that are applied, and that's just as an example of how we position within a mandate and within the guidelines.

The Chair: Thank you so much for that, sir.

We now go to Mr. Kayande.

10:00

Member Kayande: Thank you. You've mentioned a couple of times now about returns that you're excited about in energy transition and renewable energy. It was a blowout year last year. Congratulations. It's a tremendous performance. Can you talk a little bit about what that portfolio looks like right now and where there's a potential to upsize it, in your opinion?

Mr. Prakash: Thank you. Our renewable resources primarily invest in timberland and farmland investments. But before I speak specifically to the asset class, maybe by way of background: across the markets, because of changes in the market in the background, different opportunities arose over the last 20, 30 years. Think about Internet, going back 15, 20 years now. I'm going to age myself. Think about after the great financial crisis 2008-2009. The bank balance sheets were hurting. They started to pull back, and now the private credit asset class started. It is one and a half trillion now, and it's been really attractive. But there were changes in the market that led to this asset class.

Our renewables investments started within our infrastructure, but as that area has continued to grow, it has become, if you will, a subasset class or asset class, depending on your preference, in its own right. Particularly where investors such as the heritage fund find a natural place is the, as I mentioned, timberland, farmland investments. As well, we invest in integrated agricultural companies that operate farms as well as process crops and produce.

Now, what is attractive about this asset class as it has grown is that it is pretty highly correlated with inflation. You can see the intuition quite directly. As inflation goes up, the prices of trees, the prices of commodities more general – crops, grain, produce, et cetera – go up. At the moment it's gone up for economic reasons as well as the geopolitical risk events, and both have driven the higher return in this asset class. We particularly have benefited from the investments we have in Australia, New Zealand, and the United States, and it's an area, albeit 3 per cent of the portfolio, that remains quite attractive as an inherently interesting area to be looking at. That's the renewable.

The energy transition, just to complete the thought, is something slightly different but in many ways also in its incipient stages, that increasingly there is a need. Sometimes it's policy driven; sometimes it is simply where the markets are naturally going, of managing the risks from climate. Purely from a narrow lens of attractive investment returns there are opportunities in this space that would be attractive for, you know, institutional clients. There's a fair bit of work done across the industry in this space and primarily driven by the changing backdrop across the globe in this space.

Member Kayande: So when you talk about farmland, then, or farming operations: like, those would be exposed to the renewable natural gas provisions of the Inflation Reduction Act, for example? I'm just trying to figure out in my head. Like, I'm just trying to pull on that . . .

Mr. Prakash: Yeah. Some of that is absolutely impacted by – sorry. Apologies.

Member Kayande: No, no. Sorry. I know it's a weird kind of call-and-response thing. I do like just having a conversation about it.

Like, when you look at the returns that we had in that portfolio, was it primarily market to market, then, or were there exits that, you know, actually realized some of these gains?

Mr. Prakash: We've actually realized some of the gains in the renewables portfolio. That is reflected in the returns and certainly the longer term returns. One of the more attractive ones was Eolia Renovables. We sold that two years ago across our clients. It was a very attractive transaction, and some of that is simply what we see and hear in the news around the growth of renewables across the globe. That particular holding was in Europe, and over a holding period of two to three years it grew quite dramatically as the need for renewables grew in Europe. That's just an example of why this asset class is attractive. On a more technical basis this asset class has an inflation-plus benchmark, so what it does is that over short periods of time, if the portfolio does well, it looks dramatically better, or you know if it does poorly, because the benchmark is relatively a flat line, a slow moving flat line, compared to the public markets, where the benchmarks will also go up and down.

The Chair: Thank you very much, Mr. Prakash.
All right, then. With that, we go to Mr. Boitchenko.

Mr. Boitchenko: Thank you. Although the risk can rarely be entirely eliminated, there are many strategies that can be used to minimize it. For bonds, duration is a common measure of the sensitivity to the interest rate fluctuations. Can you provide some information on what duration is and why it is a good risk measure for bonds?

Mr. Tremblay-Frenette: I will handle that question. Thank you for the question, Member Boitchenko. Let's go back to the basics of bond investing just for a second. When interest rates rise, well, the value of bonds typically goes down – this is just the mechanics of bond math – and vice versa. So now the duration as a measure of that sensitivity to interest rate behaviour is one of the key measures that all bond portfolio managers would use to provide the risk-adjusted returns.

Let's pick an example here. If the duration of a specific portfolio has a unit of 5, what does that mean? It means that if interest rates do rise by 1 per cent, then the portfolios tend to lose 5 per cent and vice versa. If interest rates go down by 1 per cent, then the portfolio, if the duration is 5, would stand to earn returns of 5 percent. Now, at AIMCo we typically manage the bond portfolio, in particular the universe bond portfolio, to be close to its benchmark. As of March 31, 2023, the duration of the universe bond portfolio was around 7.4 in unit terms, and the benchmark was at 7.3, so a very, very close matching of how we manage the actual underlying portfolio in terms of its duration to the duration of the benchmark that it is tied with.

Mr. Boitchenko: I have a couple of follow-ups, but I'll narrow it down to one follow-up here. Have you made any changes to better adapt the fund to deal with the large increase in inflation and interest rates over the past year?

Mr. Tremblay-Frenette: Indeed, and I will go back to the example that we'd discussed a bit earlier, which is the addition of some assets within the private debt and loans segment of the heritage fund portfolio. As Mr. Prakash has hinted at previously, the actual duration of private debt and loans is very short in nature, just 90 days on average or thereabouts, and therefore in an environment where interest rates are rising, it is actually quite profitable to be positioned with more assets that would react in sync with interest rates rising. Floating rate assets, the types that are embedded within the private debt and loans portfolio, that we manage on behalf of the heritage fund, do provide that sort of protection or match to the behaviour of underlying interest rates. Interest rates have risen in the past two years; therefore, adding more on the private debt and loan side for the heritage fund has proven to be a very good decision.

Mr. Boitchenko: Thank you.

The Chair: Ms Gray, you have the final question, well, unless someone else speaks up.

10:10

Ms Gray: Thank you very much, Mr. Chair. My question was actually exactly along these lines, looking at interest rates rising and how the heritage savings trust fund and how AIMCo manage for that. I guess I was thinking about interest rates increasing and that impact on mortgage renewals, and then I know in our portfolio we have commercial real estate. Do we anticipate or do we think about if people start perhaps defaulting on mortgages or commercial real estate holdings, becoming less of a solid investment opportunity – how is the fund thinking this will play out and how might it impact our portfolios on that aspect?

Mr. Prakash: Again, thank you for the question. A couple of thoughts. Our mortgage portfolio: they own mortgage loans, about 70 per cent of the score; 30 per cent is specialty or more opportunistic. So that's roughly the design. When we are looking at opportunities in the markets, we are being, again, quite careful given where we are in the business cycle, that we are only positioned in those areas where our underwriting allows us to be quite comfortable with the exposure that we have.

Now, from an interest rate perspective, again, mortgage: similar to private debt and loan, the exposure is pretty short, so that part you're naturally hitched, if you will. And then the second part effectively just goes to the underwriting of the security selection process, where we are rigorous in terms of what we pick. Now, we know that our portfolio, any portfolio, does not a hundred per cent remove all the risk, otherwise the expected returns would be adversely affected, but we spend a fair bit of time in terms of the selection to ensure that the portfolio is robust.

Lastly, if we look at – and some of that is reflected in the performance of the mortgage boom. It's up about 2.6 per cent. Apologies; I'm using just the most recent year to date numbers just to give you a flavour, that even within this environment that portfolio is up around 2.6 per cent relative to the universe bonds, which is up around 1 per cent. So reflecting both the security selection as well as the duration of those portfolios.

Ms Gray: Perfect. Well, and just hearing JD talking about how this asset class and the benchmarks tend to be very closely aligned, that's what we see here. Like, when I first started looking at the fixed-income asset, I thought, "Oh, my gosh, it's so much lower," and then, "Oh, but we're beating the benchmark." So okay; that's what's happening there.

I guess my question around this asset class in general – and I understand that you've hired a third party to do this study. We currently have about 20 per cent of the heritage savings trust fund in that fixed-income asset class. Do you anticipate that that would significantly change as a result of the asset mix study given what's happening right now? Or having 20 per cent in fixed income: would that likely stay as a good, consistent amount in the adjustments within the class, or what would change?

Mr. Thompson: Well, I wouldn't want to prejudge the outcomes of the study. I mean, the whole goal of that study is actually to ask that very question, so I think we'll be in a better position to come back and report once we have something in hand, but I wouldn't be surprised by changes in allocations across the board.

The Chair: We have next Mr. Bouchard.

Mr. Bouchard: Thank you, Mr. Chair. I guess – yeah. The question of whether active or passive fund management offers better returns is contentiously debated in investment circles. One of the fund's stated beliefs is that allowing AIMCo the latitude to make active management decisions greatly enhances their ability to add value to the heritage fund. Can you expand on what per cent of your portfolio is actively managed, and why is this the correct approach?

Mr. Prakash: Thank you for the question. All of the mandates that we have for the heritage fund are managed in an active manner. A bit of context around that – I think I certainly find it quite helpful –

is that if you think about private equity investments or mortgage investments, infrastructure investments, the notion of a passive is a little academic in those in that there isn't an S&P 500, if you will, for infrastructure investments, et cetera, primarily given the nature of that. So by design, if you will, by construct about close to 60 per cent plus of the portfolio of the heritage fund is inherently in asset classes that the passive would be difficult to describe in a more precise sense.

Outside of that, more generally, you know, why an active approach is attractive for pools of capital such as the heritage fund is that it allows heritage to play to its strengths. Think about investment pools of capital with $20 billion plus or 21 and a half billion dollars, as heritage is, relative to a smaller investor, relative to all of us as individual investors. It has the benefit of a long investment horizon. It has the benefit of not necessarily needing to pay the rent bill every quarter and to the extent that as an investor you have the flexibility of the long horizon and potentially to take on a bit of illiquidity that plays to your strength, and a big part of the rationale of excess return comes from actively managing the portfolio given the advantages of the heritage fund.

Mr. Bouchard: Thank you.

The Chair: A follow-up, sir?

Mr. Bouchard: I do. Yes. I think it's page 7 of the annual report that mentions the fund's active management target, which helps to evaluate the investment manager's value-added performance over time. Now, could you further elaborate on the fund's active management targets?

Mr. Prakash: Our process of setting up the active or the excess return targets for each of our funds, each of our pools, equities, bonds, et cetera, is a process that involves us working with our clients, all of our clients collectively, and landing on or deciding upon the investment characteristics of those vehicles. For equity funds our excess return targets, the risk it will take, where to invest, benchmark, et cetera, is something that we do in conjunction with all of the clients, and what drives the return and the expected return, risk, and other characteristics is effectively the investment needs, that is reflected in the policy mix of our clients.

To the extent that, you know, we take moderate risk in our equity portfolios relative to other managers, it is simply because that is what is fit for purpose for our clients more broadly. Whether it's equities or any of our other investments, that's what we do, and therefore some of the more topical things that one might read in the press, whether it's crypto, et cetera, don't find a way in our portfolio, simply because the risk profile – it wouldn't meet the risk profile, and that's why they're not held in the portfolios.

Mr. Bouchard: Thank you.

The Chair: Do we have any further questions from the opposition side?

With that, Mr. Wiebe. You had one more final question.

Mr. Wiebe: Thank you, Mr. Chair. As mentioned on page 9 of the annual report, the legislation has required inflation-proofing to protect the fund since '05-06. This, of course, is important now more than ever to help protect the assets of the fund. How does the inflation-proofing process work?

Ms Jones: Thank you, Member Wiebe. The inflation-proofing aspect is actually written into our legislation. It's in section 11. It's a little bit complicated to understand, but it's last year's accumulated surplus. Essentially, what the fund is worth after it was to pay out any type of liability is multiplied by the change in the consumer price index in Alberta. This can be found as part of the economics team as well, too; they publish this online. It's the 12-month change.

Right now we're looking at about 4.3 per cent. So 4.3 per cent is multiplied against what the fund value was last year, and then that is our inflation-proofing number. That is what has to be retained within the fund. We were looking a few years ago at about $300 million that was retained, and now we're looking upwards of, like, $800 million, $900 million.Over time that has actually helped grow the fund by $5 billion since it came into inception. If for some reason that year-over-year change is negative – and, again, the performance target of the fund is the Canadian CPI number, but the inflation-proofing is linked to Alberta. If that number was to be negative or zero, then inflation-proofing would not be applied for that year.

10:20

Mr. Wiebe: A follow-up. You may have answered this already somewhat. What are some examples of good inflation-proofing assets?

Ms Jones: Mr. Prakash actually alluded to many of these. We have a section in the investment policy of alternatives and inflation-proofing assets: real estate, infrastructure, renewable resources. These also have inflation-linked benchmarks within the report as well.

Mr. Wiebe: Another question, if you don't mind, Mr. Chair.

The Chair: To the opposition. Did you guys have any final questions? No. That's fine, then.

Mr. Wiebe, go ahead.

Mr. Wiebe: Okay. On page 11 I would like to discuss the table showing the asset class returns compared to their benchmarks. I see that the infrastructure returns almost doubled their benchmark. This is labelled as an inflation-sensitive asset. I'm wondering if it was inflation or a combination of other factors that played a role in these large returns.

Mr. Prakash: Thank you for that question. A two-part answer. Firstly, I'll start with the more technical one, the fact that over short periods of time, given the CPI or the inflation-type benchmark, it can deviate, but the five-year numbers are more comparable and only about 60, 70 basis points apart. That's number one.

Number two, you're exactly right. The reason why infrastructure, amongst other things, has done well is the link and the benefit many of those investments – think of toll roads, where the tolls go up, or water utility, et cetera, where the bills go up as inflation goes up. That inflation protection, or inflation hedging, is part of the DNA of infrastructure investments. Typically the holdings we have tend to be contractual in nature where, you know, for the next 20 years you'll get certain payments, whether it's energy, whether it's water, whether it's any other public utility.

Lastly, to speak to one of the investments that we held in this portfolio that has done well, is that we own in the midstream sector Howard Energy partners in the U.S., and that has been a really, really stellar investment with the continued renewable energy projects that it has successfully executed on. This has also benefited, to the question earlier, from the Inflation Reduction Act, and particularly this has elevated some of our other progress within the Infrastructure portfolio. That's what I was referring to earlier, the ability to take advantage of what's happening in the macroeconomic but as well as in public policy when appropriate, as appropriate. But our focus always is on doing our due diligence to deliver on the return targets.

Mr. Wiebe: I also had a follow-up on the returns on the renewables, but I think you have already answered that. Thank you. No further questions.

The Chair: With that, if there are no other questions, this will conclude our discussion of the report. Now the committee has to consider a motion to approve the annual report. The committee clerk has some wording for a potential motion and will post it on the screens in the room and on the videoconference. We will need someone to move this motion, if anyone would like that honour.

Let's go to Mr. Kasawski, please.

Mr. Kasawski: Thank you, Mr. Chair. I move that

the Standing Committee on the Alberta Heritage Savings Trust Fund approve the Alberta heritage savings trust fund 2022-23 annual report as distributed.

The Chair: Is there any discussion? Can I ask all in favour of this motion? All opposed?

Carried.

Thank you very much for that.

We are now going to move to our review of the fund's first-quarter report for 2023-2024.This report was prepared by Treasury Board and Finance in August and made available to the committee after the committee was struck. As was said earlier, the Alberta Heritage Savings Trust Fund Act requires the committee to receive each of the quarterly reports. We're now going to hear a presentation from Treasury Board and Finance and AIMCo officials on the first-quarter report.

Please proceed.

Mr. Thompson: Thank you again, Mr. Chair. I'm also pleased to present today the quarterly results for the Alberta heritage savings trust fund. The first-quarter results provided a much more promising start to the fiscal year '23-24. Investment income was significantly higher than prior-year actuals. This increase was primarily driven by strong performance in the fund's equities due to notable improvements in the global financial markets, which resulted in the fund delivering substantially higher returns than the previous year. Over Q1 '23-24 the fund returned 2.0 per cent. This compares very favourably to the 4.1 per cent loss experienced in Q1 of the previous fiscal year. These results mirror those of most global market indices, including the S&P 500, which rebounded from a 13.4 per cent loss in Q1 '22 to a 6.3 per cent gain in Q1 '23.

[Mr. Rowswell in the chair]

As discussed previously, the fund is compared to a target return of Canadian consumer price index plus 450 basis points measured over a five-year rolling period. The target return increased from 6.7 per cent to 6.8 per cent at quarter-end due to persistent inflation. Over five years the fund return was unchanged from fiscal year-end at 6.4 per cent, which is now 40 basis points lower than the target return. Over the last 10 years the heritage fund earned a return of 8.5 per cent annually. Over five years AIMCo, our asset manager, has delivered an active return of 60 basis points above the passive benchmark return. The fund return of 2.0 per cent over the quarter outperformed its passive benchmark by 30 basis points. As a reminder, the return of the entirety of the last fiscal year was only 2.6 per cent.

As of June 30, 2023, the fund had produced $778 million in investment income, with three quarters remaining in the fiscal year. After investment expenses of $39 million, this represents net income to date of $739 million. The fund began fiscal year '23-24 with a net asset value of $21.2 billion in comparison with $18.7 billion at March 31, '22, due to the retention of income and contributions to the fund discussed previously. The net asset value of the fund continued to grow over the first quarter to $21.7 billion as of June 30, 2023. This growth was a result of positive investment performance on a larger, underlying base of assets.

This will conclude my remarks for Q1.

Mr. Prakash.

Mr. Prakash: Thank you, Mr. Thompson. I'll give you just brief remarks. The heritage fund was up 2 per cent relative to its policy benchmark of 1.7 per cent, for a value-add of .3 per cent for the quarter. While it seems like distant memory right now, the beginning of the period did have its fair share of shocks into the system. There was a regional banking crisis in the U.S. that was front and centre. We had the recurring public U.S. debt ceiling impasse in the U.S., and in the midst of this, fortunately, the market looked through the noise. The equities were up for the quarter, and you see that reflected in a 3.1 per cent return in public equities.

The markets, though we're clearly not there yet, as JD mentioned, were also starting to get a sense that inflation may start to taper off, albeit not to previous levels, and that was attractive as well. Then, lastly, through the cycle, not surprisingly, the inflation-sensitive and alternative assets class continues to do well.

[Mr. Yao in the chair]

A couple of final remarks. In the relative or the active performance in fixed income and credit, as I alluded to earlier, we had greater exposure to corporate bonds or credits rather than government bonds over this quarter, and that resulted in roughly 25 basis points of outperformance.

10:30

Then, finally, on the inflation sensitive, we've already talked about infrastructure. One of the other investments that's worth mentioning, referring to a previous question: in the renewables and infrastructure space we sold a company platform called Virescent India. This was a renewable energy platform that we had cofounded and focused on the largely fragmented market in India, and then we saw double-digit returns for this investment as we sold it through the quarter at a very attractive price. That's reflected in the returns for the quarter. In summary, again, a three-month period but up slightly with small value-add.

Thank you.

The Chair: Thank you so much for your presentation.

Now we're going to turn to questions from the members. First, we have Mr. Kayande.

Member Kayande: Thank you. Just a question about – so to pull on Ms Gray's thread earlier about the inflation-sensitive assets, while you've said that your credit portfolio is, you know, short duration, is very robust when interest rates are going up, the mark to market on these infrastructure assets is going to go the other way if they've got the same variable rate debt that you're buying in the market, right? So I'm just curious how you think about the mark to market on those inflation-sensitive assets when it's possible that their valuation may be dropping even though their cash flow is good.

Mr. Prakash: Thank you for your question. I'll start, and maybe I'll ask Mr. Langill to talk about the valuation and the process we have around that. You're right. These asset classes benefit a portfolio in that they have different attributes, which is why in a portfolio context they work better as a collective relative to an individual asset class, so individual investment. An attractive part of infrastructure amongst other things, in some ways the boring contractual asset class – you clip coupons for years and years – the inflation aspect of it is beneficial to the extent inflation hits, but even if it hits steady state or declines to a number lower than now, what that means is that the expected returns, the inflation-hedging part: that number declines at the margin, but the asset class still remains attractive.

For years and years it was an attractive asset class. Inflation has hit for the last two years. You know, it's jumped up, and to the extent inflation stays at this or a slightly lower level, it is still quite attractive, but it's not as if it'll get hit. Now, as interest rates have gone up, clearly all asset classes across the spectrum get impacted, depending on which line of business you're in, but it's not necessarily the case that you would be severely disadvantaged if the inflation comes off and/or the interest rates also come off. In that sense it's helped with the hedging part. The hedging attractiveness shrinks at the margin, but the fact that you have contractual rates over 10, 15, 20 years: that part still remains attractive.

Member Kayande: Basically, you would characterize your real estate and infrastructure assets as being less sensitive to interest rates because they have long-duration debt on them. Is that part of it? Like, how often do you recalculate the mark to market on these assets?

Mr. Prakash: Just to clarify, across infrastructure and real estate we typically, when we are – you know, what you see in the portfolio holdings are by and large equity holdings rather than infrastructure debt or real estate debt. Where we see the real estate debt, for example, is more the mortgage portfolio, where that is more concentrated, rather than the debt in our real estate portfolio. So real estate absolutely is impacted by interest rates unambiguously, again, given long-dated future cash flows. But what I was saying is that the inflation-hedging part becomes more attractive when inflation inches up; as that comes down, that part, you know, shrinks. But the asset class just in terms of the rental income, for example, yield that you get from real estate: that part doesn't diminish.

One other quick sidebar on real estate. Whilst the part that has been over the last two or three years, particularly through the pandemic and post – the focus, the headlines on real estate have been around the retail, the shopping malls, et cetera, and, secondly, the commercial real estate in terms of people working from home. But a big chunk of the heritage portfolio is invested in logistics, invested in data centres, invested in a whole slew of other attractive areas, which are growing. Think about Amazon and all the fulfillment centres growing across, certainly, Canada but everywhere else and the data centres that enable the online ordering and all the things we do online. That part of real estate has been quite attractive, but it doesn't get as much ink as the ones that you see on the front page.

The Chair: Thank you for that, Mr. Prakash.
Now we go to Mr. Boitchenko.

An Hon. Member: Sorry. He had . . .

The Chair: Oh, sorry. Go ahead. My apologies.

Mr. Langill: Just to address your question on the valuation of the private debt and loan portfolio, we value that portfolio – it's a private portfolio – quarterly. As Mr. Prakash said, you know, that portfolio is basically floating rate, so you're not going to get a lot of movement in the mark to market based on changes in interest rates. However, you do get some based on change in credit spreads because it is a risky portfolio in the sense of credit.

Because they're private names and they're well diversified, what we do is that we look at and develop ratings for those entities, and we proxy those to published external rating agencies as well as our own internal rating capabilities, and then we look to the market and see how those spreads have changed in those ratings by sector, by geography. We update our models every quarter for those changes in credit spreads, and we have a mark to market. But the mark-to-market changes in that portfolio to date have been pretty benign.

Mr. Prakash: Infrastructure, maybe? Just a minute on infrastructure valuation.

Mr. Langill: Oh, infrastructure valuation. Again, they're quarterly on the private side, but I would say on those, like, private companies, Eolia, Howard, for example: most of those are really done on an annual basis because that's when you get a refresh of the budget. You know, we look for comparable transactions. We update it the best we can on a quarterly basis, but we do pretty much a deep dive at the year-end.

Member Kayande: Thank you very much for that.

The Chair: Thank you very much, Mr. Langill.
With that, now we go to Mr. Boitchenko.

Mr. Boitchenko: Thank you, Chair. Page 2 of the first-quarter report outlines the Alberta heritage savings trust fund's overall investment performance against the policy benchmark. I was thrilled, actually, to see that the returns were higher than this benchmark, but I'm still curious. How is the policy benchmark determined?

Mr. Prakash: I'm going to start, and if the TB and F team wants to add. Simply put, the policy benchmark is calculated by two sets of inputs: firstly, the various benchmarks that apply to the different investments that the heritage fund has – for example, for Canadian equities, it is the S&P/TSX index – and for global equities, it is the MSCI global index.

This calculation that you see here, the number, looks at what the returns for that index or benchmark are for the period and multiplies it by the policy weight that the heritage fund has. So if you have 10 per cent in global equities which is up 20 per cent, you know, it adds 2 per cent to the overall policy benchmark. You sum it up across for that period, and that's how you get the policy benchmark return.

10:40

Mr. Boitchenko: And a follow-up if I can?

The Chair: Yes, sir.

Mr. Boitchenko: How much risk is AIMCo taking relative to the policy benchmark?

Mr. Prakash: Relative to the policy benchmark we measure it using a metric specifically that we report to clients called active risk or active value at risk. Currently we're taking roughly about 4 per cent active risk. We're allowed up to 11 per cent. So we're at the lower range of the active risk, but that's the number for the moment.

Mr. Boitchenko: Thank you.

The Chair: We now go to Mr. Kasawski.

Mr. Kasawski: Well, thanks, Mr. Chair. You know, given the early and longer wildfire season that we experienced this year and with timberland burning, infrastructure and real estate being destroyed by extreme weather events, the insurance industry under stress from claims and costs, did wildfires impact any investment in Q1, and more generally how are we incorporating risks from climate change into heritage savings trust fund investment management?

Mr. Prakash: Again, thank you for the question. There wasn't a direct impact, fortunately, from the wildfires into the portfolio. Clearly, a big human tragedy across the globe, in the province, and elsewhere, but it did not impact the portfolio directly, first and foremost.

Secondly, in terms of over a longer horizon, how do we manage for those types of risks? We do believe climate risk, like any other risk, needs to be understood, measured, managed, so for every single investment that we do, every single private investment that we do, there is an assessment, there is an ESG assessment, including climate risk assessment, of those investments.

For example, we described that you own farmland and timberland in Australia amongst other geographies. As we were looking, as the investment team was doing the due diligence around that, there was a fair bit of work done to assess, understand the rain patterns and how they might get impacted by climate change five years, 10 years out. I recognize that that's not an exact science, but a fair bit of time is spent understanding those types of considerations, including policy considerations, in those geographies. That's how, you know, we're navigating it, and a core – core – principle of how we run investments is the integration of climate risk and ESG more broadly, climate risk more specifically, as we assess the investments.

Then the last thing to say is that, you know, we continue to invest and improve in that measurement, in that reporting alongside the industry. Clearly, it is a growing space, but we spend a fair bit of time in understanding it just so we can manage the risks within the portfolio as well as identify the investment opportunities that the climate considerations give rise to.

Mr. Thompson: If I could just supplement that a little bit from a policy perspective from TBF. What we expect of AIMCo in consideration of ESG parameters is that they be used as a risk measure and evaluation tool and not as part of a thematic investment. There are often trends in the investment industry which seem to be absent that rigour. We acknowledge that ESG factors will impact the valuation of all of our asset classes, but we do expect of our asset manager that they stick to the guidelines, that they be focused on maximizing the financial return of the plan.

Mr. Prakash: Absolutely.

Mr. Kasawski: No follow-up.

The Chair: Okay. Perfect. Thank you.
With that, Mr. Bouchard . . .

Mr. Rowswell: Boitchenko.

The Chair: Oh, sorry.
Mr. Boitchenko, go ahead.

Mr. Boitchenko: Thank you, Mr. Chair. I can also see on page 2 that the asset allocation of the fund is highly diversified, with significant stakes in real estate, private infrastructure, and foreign equity. This is contrary to some of the assumptions made by the opposition that the investments of AIMCo are not diversified enough and put the fund at risk. Could you please explain how you go about allocating investment in order to maintain a well-diversified portfolio and maximize returns?

Mr. Tremblay-Frenette: Thank you for the question, Member Boitchenko. I will describe in a very summary fashion how we allocate investments and the process that surrounds the whole thing. To contextualize, we have a set of policy targets and ranges that are agreed upon by each client. We work very closely and collaboratively with our friends at Treasury Board and Finance to establish the actual investment policy that we are going to abide by, with targets, specific targets, for each asset class. Once we've done the work of looking into the strategic asset allocation, so the very long-term asset mix for the heritage fund, alongside the different targets for each asset class, then comes the time for implementation.

The most important thing that we look for with respect to implementation is whether or not AIMCo, as the asset manager of the heritage fund, has a competitive edge. Let's pick on the example of infrastructure, for instance, here. We try to match our competitive edge internally in terms of our portfolio managers that are managing the portfolio as well as some of the long-term objectives of the heritage fund. One of the key characteristics of the heritage fund is its perpetual life. We take that very seriously when we try to come up with the most appropriate set or asset mix for the fund. Infrastructure, for example, is a great match for that long life characteristic of the heritage fund. It also has some other benefits such as it's a difficult to replicate asset class. It has hard or, let's say, large barriers to entry as well. Some of those characteristics do provide a natural competitive edge for us to enter into on behalf of the heritage fund.

Of course, from time to time we do take advantage of the fact that, given the long life of the heritage fund, it means that the heritage fund can be patient. Often what we see, especially on the public market side, is that investors are somewhat impatient, so we can take advantage of that on the private market side in such classes as infrastructure to make sure that we can invest for the long haul on behalf of the heritage fund.

Mr. Boitchenko: Can you please assure all members in this committee and Albertans that AIMCo makes these investments without any kind of political interference from the government of Alberta?

Mr. Prakash: Absolutely. We make investments per our mandate, and that's our sole lodestar.

Mr. Boitchenko: Thank you.

The Chair: With that, any final questions from the opposition? Please go ahead, Ms Gray.

Ms Gray: Thank you. In the quarterly report – I'm just looking on page 17, note 7, around investment expenses – it appears that in comparing 2023 to 2022, the investment expenses, the percentage of dollars invested hasn't changed, but I'm noticing an increase in investment costs. I just wondered if you can speak to what you're seeing in this quarterly report when it comes to investment expenses, if there's anything of note.

Mr. Langill: Sure. Maybe I can address that. Thank you for your question. As outlined here on page 17, note 7, the investment expenses, there are really four categories of those investment expenses. The first one is the heritage fund's share of AIMCo's corporate operating costs, so these are salaries and benefits, technology, data costs that we would use to run the investment platform. The second point is the performance compensation for AIMCo staff. The third one is external investment manager fees, and then the last of the four is the investment management performance fees.

10:50

What you see is that the largest variability in our investment expenses is really the performance-linked costs. With respect to AIMCo performance costs there's a large component based on our four-year investment returns, both excess returns as well as total returns, and we provide quite a bit of disclosure on our investment performance compensation plan in our annual report. We also have performance-based contracts in place with all of our external investment managers. When they do well, our clients do well, so those contracts are very much aligned with our clients' best interests. Then most of the performance-linked costs are really from our external investment managers.

The Chair: A follow-up, Ms Gray?

Ms Gray: Just when it comes to the external investment managers, is the number of external investment managers something that remains constant, or are we doing more of the external, less?

Mr. Langill: It has grown a bit, you know, year over year. It's up, I think, about $4 million, the investment management fees, and that's, I think, reflective of more investments in the private equity asset class.

The Chair: Mr. Bouchard.

Mr. Bouchard: Thank you, Chair. I'd like to hear more about the asset allocation listed on page 2. Since foreign equity accounts for a whopping 28.5 per cent of the fund, I was hoping you could provide some details on what types of assets fall under this category.

Mr. Prakash: Primarily on foreign equities the majority of what we hold in this bucket are shares of international entities; think Microsoft, think Apple, et cetera. Now, the benchmark that we manage this portfolio to is the MSCI all-country world index. MSCI is one of the leading index providers, and this is a commonly used benchmark by many institutional investors. The benchmark has roughly 2,000 medium and large-sized companies across the United States, Europe, U.K., Japan, Canada, et cetera, so multiple countries. Then, lastly, it's currently about 60 per cent U.S., 6 per cent Japan, 4 per cent U.K., 3 per cent Canada. That's the rough canvas in terms of where these investments are, just from a benchmark perspective. Needless to say, this is a very diversified exposure, 2,000 companies, though our portfolios hold a subset of the benchmark names.

Secondly, in addition to what the investable universe looks like, we implement it in different manners internally. We have a team that utilizes a fundamental investing approach, where they are undertaking a more traditional stock-picking exercise. We also have a team that utilizes systematic investing, which is more quantitative and looks at a variety of factors in making those investments. Then, thirdly, we also leverage external partnerships that allow us better access and leverage areas, where we benefit from the specialized expertise that our partners bring to bear, and we do that, again, using not only in a traditional equity space but also hedge fund space, which allows some specialized investment activities that are accretive to the objective of the equity portfolio.

Mr. Bouchard: Thank you.

Member Kayande: I actually want to ask a little bit more about that if you don't mind. Do you find – like, does the active management premium, then, take into account additional factor tilts? You've talked a little bit about benchmark and beta risk, but of course, like in a long-lived portfolio, you can just take duration – right? – and then that can look like alpha over enough time. You know, can you talk a little bit about that? Like, do you adjust the active management premium for those kinds of factor tilts, or do you manage those factor tilts actively and change them over time?

Mr. Prakash: Yeah, we do manage them actively over time. By the way, that's a great question and quite exciting, but we're going to stick away from the details, and I'll stick to the high level. Typically where you would find and where the misclassification is in those types of portfolios is if you see a manager with a perpetual tilt. So to use your fixed-income example, if you have a perpetual credit tilt: is it alpha, or is it just simply excess return? That's debatable.

In the equity space that example doesn't transfer over that directly. For example, one of the popular trades a few years ago was tilting or leaning more heavily into low-volatility stocks, so the boring stocks, and then there was a premium. It was good for a few years until it wasn't, in the last couple of years. Likewise, the value-type trades have been hurting for many, many years.

In summary, that is something that we look at actively; we manage it actively, particularly the systematic team looks at that in an ongoing manner.

Member Kayande: So how does that relate, then, to your active management premium? Does it right now? I guess, like, if I were to evaluate a book, it's fine to say: okay; you know what? Like, we've got an oil price factor, for example, because we're invested in TSX, and that's highly interest-rate sensitive and oil-price sensitive, and then over time you can change those tilts, and that is like active management, if you will, or you can just hold them, in which case, as you say, it could just be, you know, uncompensated risk that is in fact just working out for you. Does that enter into your active management premium? Or is the active management premium quite different from that?

Mr. Prakash: It's a two-part answer. The heritage portfolio. I'll use a simple example to the extent that it is invested using an MSCI world benchmark. As soon as you make that assertion, because the MSCI world is large cap and mid cap, in effect you're saying that's an attractive call it factor, call it beta exposure over time. That's built in in terms of how, you know, the portfolio is designed, and the thesis is that that policy mix ultimately is aligned with the overall objectives of the heritage fund. That's the first part that is already inbuilt, if you will, before you even get started.

The second part is that as you look at the portfolio and it is getting implemented and the positions and the tilts, if you will, that we have, that is something that changes over time, and that's where the active process kicks in relative to a tilt that is more perpetual.

Member Kayande: Thank you.

The Chair: With that, this concludes our discussion of the report.

Now the committee must consider a motion to receive the first-quarter report. The committee clerk has posted some wording for a potential motion – well, is posting some wording for a potential motion on the screen in the room and on the videoconference. Can I have somebody move this motion? Mr. Boitchenko.

Mr. Boitchenko: I move that

the Standing Committee on the Alberta Heritage Savings Trust Fund receive the Alberta heritage savings trust fund 2023-24 first-quarter report as distributed.

The Chair: Is there any discussion on this matter?

All in favour, please say aye. All opposed? With that,

the motion is carried.

I'd like to thank our guests from Treasury Board and Finance, AIMCo, and the office of the Auditor General for being here today. We'll be moving on to deal with some other committee business. You're welcome to remain, but we understand if you have some other engagements. Thank you, guys, so much for your time.

11:00

At this time traditionally we might ask for, like, a five-minute break, but that said, the final order of business is just deciding on an annual public meeting. I have asked, and we could be done very, very quickly if you so choose to forgo a break.

With that, we need to decide on a location, date, and format. In accordance with the Alberta Heritage Savings Trust Fund Act the committee must hold public meetings to inform Albertans about the status of the fund. The public is encouraged to participate in these annual meetings by attending in person, phoning in, or submitting questions online through e-mail or social media. The committee previously held the annual meetings in locations around the province to encourage public engagement; however, with advancements in communication technology the meeting has been held exclusively at Edmonton venues since 2011. Starting in 2015, the public meeting has been held in committee rooms on the second floor here in the QE II Building. We have all the broadcasting and technological equipment needed to broadcast on TV and live stream the meeting on the Assembly website. Although the committee is not required to hold a public meeting in our committee rooms, previous committees have found this to be the most practical and cost-effective solution.

As it is already November and we have limited time to plan this meeting, I'd suggest that the committee follow what has become the status quo and have the meeting here in the Queen Elizabeth II Building again. Before we discuss setting the date, do any members have any questions or comments about holding the public meeting here in our committee rooms?

Seeing none, we now turn to the date, time, and format of the meeting. The public meeting is usually held in October, right before the start of the fall sitting of the Assembly. The meeting, which is usually scheduled for two hours, has typically been held on a Thursday evening outside of traditional workday hours to allow the public to attend and to ensure that the Assembly will not be sitting. The most recent meetings have allowed public participation in person, via telephone, or by submitting questions through a web form on the committee's website, by e-mail, or using the Assembly's social media channels.

With this in mind, I did ask the committee clerk for their suggestions on a date and time to meet, and it was suggested that in order to give LAO communications sufficient time to advertise the meeting and allow for that public interaction, the committee may want to consider having this year's public meeting on Thursday, November 30, 2023, from 6 to 8 p.m. Do members have any questions or comments about this date and time of Thursday, November 30, from 6 to 8 p.m.? Please, Ms Gray.

Ms Gray: Thanks so much, Mr. Chair. We're just looking at Thursday, November 30, in the evening. We're wondering if there were any other dates that were up for consideration or just the single one.

The Chair: Again, that was just a suggestion by the committee clerk, but he also suggested we could possibly do the following Thursday at the same time if you feel that we need more time.

Ms Gray: Are we considering Thursdays because we're concerned there could be an evening sitting and the implication there?

The Chair: Yes.

Ms Gray: Okay.

The Chair: Yeah. You are a House leader.

Ms Gray: That's understandable. We don't always know when an evening sitting is going to happen.

So the committee clerk is suggesting November 30 or potentially December 7 if we push that back a week.

The Chair: Yes.

Ms Gray: We're just considering that. Give me one moment, Mr. Chair.

The Chair: Absolutely. I ask you to consider a family-friendly Legislature, as you guys had in 2015.

With that, we will put a draft motion on the screen for all to consider. I'm asking for someone to proceed with pitching that motion.

Mr. Bouchard: I'll do it.

The Chair: Mr. Bouchard.

Mr. Bouchard: Okay. That

the Standing Committee on the Alberta Heritage Savings Trust Fund schedule its 2023 annual public meeting for Thursday, November 30, 2023, from 6 to 8 p.m. at the Queen Elizabeth II Building.

The Chair: Perfect. With that, any further discussion on that?

Can I ask who's all in favour of this scheduled date? All opposed? With that,

that motion is carried.

For the benefit of all members, but particularly our new members, I will attempt to describe the standard format for the public meeting. These meetings are intended for the public to learn and ask questions about the Alberta heritage savings fund. The format that is followed begins with Treasury Board and Finance and AIMCo each making a presentation on the fund. Following the presentations the meeting is opened up for questions from members of the public. The chair alternates between taking questions from those in the room, on the phone, and from online sources. Unlike a regular committee meeting, members will not typically be asking questions unless there is a lull in questions from the public during the meeting, so I'd ask that you please prepare some questions but understand that we may not get to them. Are there any questions about the public meeting format before we move on to the communications plan? Mr. Kasawski.

Mr. Kasawski: Thank you, Mr. Chair. It's probably related to communication. In terms of attendance online and in person, what is the typical attendance in numbers?

Mr. Huffman: I can handle that, Mr. Chair.

The Chair: Please.

Mr. Huffman: Thank you, Mr. Chair. It really varies year to year. Last year we had one person in person attending the meeting and three people phoning in. The year before that, the gallery was closed, so there was nobody in person. And then the year prior to that, I think they had six or seven in person and two on the phone lines. It really varies, but it's not a huge number of people in person, generally speaking. Yeah. It really varies year to year.

The Chair: Yeah. Did you have a follow-up?

Yeah. In preparation for the annual public meeting the normal practice is for the committee to meet with LAO communications service staff well in advance of the public meeting to discuss advertising for the meeting. The committee then directs the LAO to prepare our communications plan, which would be reviewed and approved at a later meeting and then implemented in the months leading up to the public meeting. However, this year due to the time constraints we face, LAO communication services staff have prepared a proposed plan, which was made available to committee members on the committee's internal site last week, for review today. At this time I'd invite staff from LAO communications services to discuss a proposed communications plan and how it supports the public meeting, and then committee members will have the opportunity to ask questions. With that, LAO comms, the floor is yours.

Ms Sorensen: Thank you, Mr. Chair. I won't get into a lot of detail. As the chair explained, we are looking at a plan very similar to last year simply because of the timelines, which would allow us enough time to do the advertising should this committee choose to go with that.

Just a little bit further to the question you were asking earlier about attendance: there was a report submitted to the previous committee that outlined exactly who heard of our meeting, how, and how many people participated in different ways, which I would be happy to make available to this committee. I think our live-stream viewers at the height were about 36; you get people coming in and out throughout the meeting.

We look at not only making people aware that the meeting is happening but also trying to engage them to learn more about what this committee does and what the heritage fund does. Towards that end, we're recommending a number of strategies that were implemented last year, including a way to support remote participation by doing social media advertising, province-wide advertising, and we're suggesting again through both daily and weekly publications. The daily publications: there are seven throughout Alberta. The weekly publications varies from time to time, but it gets into the smaller community newspapers, and it's about 80 to 85 publications right now, I think. And then, again, we would do some no-cost options. So you've got the website, you've got media relations, an e-card. We do a media kit for members so that they can engage their own constituents within their communities. We also, of course, use a lot of social media organic posts to promote through X, formerly known as Twitter, Facebook, and let people know about the phone and e-mail options. We also use social media to leverage educational information about the fund.

I think that's about it. We then, again – what I was just alluding to – measure the results of all of the different initiatives and share that with the committee at the end so that they know how people are learning about the fund, and that helps direct how we would recommend future initiatives. This year is a little bit different because there's not a lot of time between the time that the committee was struck and the time that the public meeting is held, so that's why we were relying heavily on pretty much what we did last year.

With that, Mr. Chair, I would open it up to any questions.

The Chair: Thank you so much for that.

I'll now open the floor to discussion from any of the members if they have any questions.

Mr. Bouchard: Just a quick question.

The Chair: Yeah. Go ahead, Mr. Bouchard.

Mr. Bouchard: We're free to put it on our own social media?

Ms Sorensen: Absolutely. In fact – if I may, Mr. Chair – part of what we would do would be to draft, like, an e-card for you, some social media posts, provide that to all members so that we have consistent messaging going out, and that would be well in advance. I mean, we try – probably within the next week we'll be putting all the materials together and then starting to promote, to give a week or two notice to Albertans.

11:10

The Chair: It would be nicer for when – definitely advertise it. Those 36 that were online: how many of those were staff?

Ms Sorensen: I will not comment on that, Mr. Chair.

The Chair: With that – please.

Mr. Kasawski: Yeah. Mr. Chair, I look at that $39,000 and the attendance that we yield. I know that now we're talking about three weeks from now. So how much does a direct mailer cost to everybody in Alberta?

Ms Sorensen: Direct mailers: I believe we actually looked at that for this year, but we would have to build it from scratch, which we didn't know that there would be time to do this year. I think it was coming in around $4,000 or $5,000 to do just – sorry. No. Let me clarify. That was just to do the Edmonton – like, the area close to this building. That didn't include a province-wide mailer. I don't want to say what that would be. I know we did one for a campaign a few years ago, but I don't have the numbers in front of me to provide enough clarity to this committee.

The Chair: Do you have a follow-up, sir?

Mr. Kasawski: I mean, mostly discussion, Mr. Chair. I just try to, like, envision the best way we – a $39,000 budget is a significant amount of money to attract people here for such a low turnout. I get that there's a point of, like, maybe for a moment someone sees it and goes: oh, heritage savings trust fund; good, or whatever that is. I'm just wondering. I guess the question is: if we were to move away from print ads, is there something more effective we could do in terms of raising awareness about the trust fund and the committee?

Ms Sorensen: If I may, Mr. Chair? Certainly, there are any number of options that we can do. Social media is definitely where we get most of our, I guess, interest or awareness about the meeting. The newspaper print tends to target an older demographic and probably more of the communities in the rural areas than the social media, but we can always upgrade that, maybe pull the weeklies out, do the dailies. There are so many options. I think what we're stuck with now is just trying not to do a whole lot of new initiatives because there's simply no time to put those together. If there were, certainly the mailer would have been an idea that we would have pursued. In fact, it was in there until we found out that the meeting was happening so soon.

Mr. Kasawski: No further questions.

The Chair: Perfect. With that, if there are no further questions, the committee should now consider a motion to approve the communications plan. Sure as can be, a draft motion to approve the communications plan as distributed will be put up on the screen for someone to consider.

Oh, look at that. Mr. Wiebe.

Mr. Wiebe: I move that

> the Standing Committee on the Alberta Heritage Savings Trust Fund approve the draft communications plan in support of the 2023 public meeting as distributed.

The Chair: With that, do I have any further discussion on this matter?

With that, we will vote. All in favour of, please say aye. All opposed? Thank you so much.

> That motion is carried.

That said, we can also discuss behind the scenes further communications plans for future meetings, absolutely, if we want it a bit more robust to try to incentivize people to actually watch us. That would be fantastic.

Now that the committee has decided to amend the proposed communications plan, LAO communications will revise the plan as quickly as possible and provide it to the committee for approval. Given the aforementioned time constraints and to allow for sufficient advertising . . . [interjection] Oh, sorry. My apologies. We're not amending the plan.

That's it, then. Just other business now. So with that, are there any other issues for discussion at today's meeting? Nothing.

With that, our date of our next meeting will be our public meeting on Thursday, November 30, 2023, at 6 to 8 in the evening. I look forward to seeing all of our members there. Thank you all so much, and everyone have a wonderful day.

Oh, wait. A motion to adjourn. Of course. I can't get off that easy, can I? If there is nothing else for consideration, I will call for a motion to adjourn. Mr. Rowswell. All in favour of adjourning the meeting? All opposed? With that, I just want to say that this was the most pleasant committee meeting I have ever been at, so thank you, everybody, so much for that.

All right. This meeting is adjourned.

[The committee adjourned at 11:15 a.m.]

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