Legislative Assembly of Alberta

The 31st Legislature
First Session

Standing Committee
on the
Alberta Heritage Savings Trust Fund

Annual Public Meeting

Wednesday, November 6, 2024
6:30 p.m.

Transcript No. 31-1-7

Legislative Assembly of Alberta
The 31st Legislature
First Session

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)
Dyck, Nolan B., Grande Prairie (UC)
Ellingson, Court, Calgary-Foothills (NDP)*
Hunter, Grant R., Taber-Warner (UC)**
Kasawski, Kyle, Sherwood Park (NDP)
Kayande, Samir, Calgary-Elbow (NDP)
Wiebe, Ron, Grande Prairie-Wapiti (UC)

* substitution for Kyle Kasawski
** substitution for Nolan Dyck

Ministry of Treasury Board and Finance Participants

Brittany Jones	Director of Investment Strategy
Stephen Thompson	Executive Director, Capital Markets
Kate White	Deputy Minister

Alberta Investment Management Corporation Participants

Amit Prakash	Chief Fiduciary Management Officer
Evan Siddall	Chief Executive Officer
Kate White	Deputy Minister

Support Staff

Shannon Dean, KC	Clerk
Trafton Koenig	Law Clerk
Philip Massolin	Clerk Assistant and Executive Director of Parliamentary Services
Nancy Robert	Clerk of *Journals* and Committees
Abdul Bhurgri	Research Officer
Rachel McGraw	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
Amanda LeBlanc	Managing Editor of *Alberta Hansard*

Standing Committee on the Alberta Heritage Savings Trust Fund

Public Participants

Robert Ascah
Clive McPherson
Greg Meeker
Rose Marie Sackela

6:30 p.m. Wednesday, November 6, 2024

[Mr. Yao in the chair]

The Chair: Good evening, everybody. I'd like to call the 2024 public meeting of the Standing Committee on the Alberta Heritage Savings Trust Fund to order. I'm Tany Yao. I'm the MLA for Fort McMurray-Wood Buffalo and chair of this committee. Tonight the committee is pleased to host its annual meeting to hear questions from members of the public who are interested in the Alberta heritage savings trust fund. I'd ask that members and guests seated at the table introduce themselves for the record, and I will then call on those joining in by videoconference. We will begin to my right.

Mr. Rowswell: Garth Rowswell, MLA, Vermilion-Lloydminster-Wainwright.

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

Mr. Boitchenko: Andrew Boitchenko, MLA for Drayton Valley-Devon.

Mr. Wiebe: Ron Wiebe, MLA for Grande Prairie-Wapiti.

Mr. Bouchard: Eric Bouchard, Calgary-Lougheed.

Mr. Siddall: I'm Evan Siddall, the chief executive officer of AIMCo, Alberta Investment Management Corporation.

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

Ms Jones: Good evening. Brittany Jones, director of investment strategy at Treasury Board and Finance.

Mr. Thompson: Steve Thompson, Treasury Board and Finance.

Ms White: Kate White, deputy minister, Treasury Board and Finance.

Member Kayande: Samir Kayande, MLA, Calgary-Elbow.

Member Brar: Gurinder Brar, MLA, Calgary-North East.

Mr. Ellingson: Court Ellingson, MLA, Calgary-Foothills.

Mr. Huffman: Warren Huffman, committee clerk.

The Chair: Thank you so much for that. I don't believe we have anyone virtually. Excellent.

For the record I will note the following substitutions: we have Member Ellingson for Member Kasawski and Member Hunter for Member Dyck.

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

The Alberta heritage savings trust fund was established in 1976 with funds from nonrenewable resources, and it is managed by the Alberta Investment Management Corporation, also known as AIMCo, with direction from the Ministry of Treasury Board and Finance.

Tonight's meeting provides an opportunity for Albertans to participate in a discussion about the status of the fund, its investments, and to find out what's in store for the future. The investment professionals who manage the fund to get the best possible return are here to answer your questions.

Our proceedings are being broadcast live on Alberta Assembly TV, and the audio and video of this meeting are streamed live on the Legislative Assembly website at www.assembly.ab.ca as well as on the Legislative Assembly's Facebook and X accounts. I'd like to encourage everyone to join the discussion during our live broadcast.

More information about the committee and its mandate can be found on the Standing Committee on the Alberta Heritage Savings Trust Fund page on the Legislative Assembly website. If you would like to participate, you may come in person to the Queen Elizabeth II Building until 8:30 p.m. tonight; phone in by calling 1.800.717.1738, conference code 49609; or you can submit your questions via the web form on the committee's website. You can also e-mail questions to committee.admin@assembly.ab.ca or you can post questions on Facebook or X by using #abheritagefund. This information will be displayed on the screen for the duration of the meeting.

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

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

[A video was shown from 6:34 p.m. to 6:36 p.m.]

The Chair: Thank you so much for that. I would now like to invite officials from Treasury Board and Finance for a presentation on the heritage fund. Your slides are loaded up.

Mr. Thompson: Thank you, Mr. Chair. Good evening, committee members, guests, and members of the public. My name is Stephen Thompson. I'm the acting assistant deputy minister of treasury and risk management. I'm joined today by Kate White, deputy minister of Treasury Board and Finance, and Ms Brittany Jones, our director of investment strategy. Thank you for the opportunity to present at this evening's annual public meeting for the Alberta heritage savings trust fund.

Our presentation tonight will cover a brief history of the fund since its inception and a summary of the '23-24 fiscal year results. I'd like to thank those in attendance today for their interest in the fund. Next slide.

The heritage fund was first established in 1976 and operates today under the authority of the Alberta Heritage Savings Trust Fund Act. The fund was seeded with an initial investment of $1.5 billion with a mission to collect a portion of Alberta's nonrenewable resource revenues and transfer our resource wealth to future generations of Albertans. From 1976 through 1982, 30 per cent of Alberta's nonrenewable resource revenues were transferred into the heritage fund. Next slide, please.

The heritage fund was initially established with three objectives: to strengthen and diversify the Alberta economy, to invest to improve life in Alberta, and to provide a future revenue stream to support government services when revenue from nonrenewable resources eventually ran out. Next slide.

In 1982 contributions toward the heritage fund began to decline. Transfers into the heritage fund were reduced from 30 per cent to

15 per cent of nonrenewable resource revenues, and for the first time income was transferred out of the fund to bolster Alberta's general revenue and reduce government's borrowing requirements. Since that time $45.8 billion has been transferred to the government to support its fiscal and capital plans. This began with an $866 million transfer made in the 1982-83 fiscal year.

In the 1987-88 fiscal year the decision was made to discontinue transfers from resource revenue receipts altogether. Between 1976 and 1995 $3.5 billion was used to pay for capital projects, and transfers of just over $600 million were made to other provincial endowment funds. From 1988 through 1995 the fund's value fell from $12.6 billion to $11.8 billion. In 1995 results from a survey of 50,000 Albertans showed that they were strongly in favour of keeping the heritage fund and changing it to a generator of long-term investment returns. That feedback from Albertans resulted in a legislative change made in 1997. The resulting mission, outlined above, still guides the investment decision-making for the fund today.

6:40

In 1997 the heritage fund investment strategy was amended to fulfill three main goals: to earn income to support government's consolidated fiscal plan; to make investments to maximize long-term financial returns; and to improve transparency and Albertans' understanding around the fund. These changes set the foundation for what the heritage fund is today and reinforce that the mission of the heritage fund is to maximize long-term financial returns from its investments.

In 2006 contributions to the fund started again, and inflation-proofing the fund became a mandatory requirement; $1.75 billion was transferred into the fund in the first deposit made since resource revenue transfers stopped in 1986-87. Inflation-proofing still exists within the act today and has helped to protect the real value of the fund since its introduction. A further two contributions were made into the fund in the 2006-07 and 2007-08 fiscal years. These are the last contributions made into the fund until the changes introduced by the current government.

In the wake of the global financial crisis during the 2008-2009 fiscal year the value of the fund declined to $13.8 billion from a high of $16.4 billion just one year prior. The value of the fund recovered to its previous levels shortly thereafter and then remained largely unchanged until the 2020-21 fiscal year. Deliberate and meaningful action taken by government to grow the heritage fund has resulted in a $7.2 billion increase in the fund's value between the end of 2021 fiscal year and March 31, 2024.

In 2022-23 the Alberta government amended the Alberta Heritage Savings Trust Fund Act to require that income generated by the fund is retained within the fund unless a withdrawal is specifically authorized by Treasury Board. In Budget 2024 an additional $2 billion was allocated to the heritage fund. With this contribution the value of the fund is expected to surpass $25 billion in the current fiscal year.

This is a recap of those accomplishments since 2020-2021.

Now we'll have a quick overview of last year's performance. The Alberta Heritage Savings Trust Fund Act requires that investments must be made with the objective of maximizing long-term financial returns. Assets of the fund are invested prudently to avoid undue risk of loss and to obtain a reasonable return that will enable the fund to meet its objectives. In this context being prudent means exercising care, skill, diligence, and sound judgment when making investment decisions. Investment risk is managed at the total portfolio level as well as on an investment-by-investment basis, and diversification of the fund's investments helps achieve more consistent returns while reducing total risk.

Established return goals and risk tolerances are used to set an appropriate asset allocation which reflects these goals and tolerances. Established return targets ensure that the return expectations are reasonable given the available investments, the risk of those investments, and the fund's asset mix. Periodic reviews of policies, risk tolerances, and asset allocations are conducted to reflect evolving financial markets as well as any changes to investment objectives.

The heritage fund's target is to earn a real return of 4.5 per cent over the most recent five-year period; in other words, to generate a return that is 4.5 per cent higher than inflation during this time frame. Given recent persistent high levels of inflation, the fund's latest five-year real return target increased to 7 per cent. Over the same five-year period it is expected that the investment manager will add 100 basis points or 1 per cent of value above the return that the heritage fund would have earned if it was passively invested.

This is just an outline of the asset mix currently in place for the heritage fund. The target asset mix for the heritage fund is allocated between three main categories: 20 per cent fixed income, 32.5 per cent inflation-sensitive and alternative investments, and 47.5 per cent in equities. AIMCo as the investment manager is allowed to overweight or underweight these asset classes to take advantage of sectors that are expected to outperform and/or to reduce exposure to those sectors that are not. The asset mix has been constructed to achieve the real return target set for the fund.

Total heritage fund performance was below its relative return benchmark by 1.7 per cent in 2023-24. In 2023-24 the fund's investment return was 8.1 per cent while the passive benchmark returned 9.8 per cent. This is the first year the fund has underperformed this benchmark since the pandemic of 2020.

As of March 31, 2024, equities represented the largest portion of the heritage fund portfolio at 45.8 per cent, which was slightly underweight of the long-term policy target. The underweight portion relative to the benchmark had a negative effect on the fund's returns as equities were the best performing asset class during the '23-24 fiscal year. Equities, which include both public and private equity, generated a 19.5 per cent return. Strong performance was driven by recovery in the U.S. and international developed markets. Canadian and emerging market equities also contributed positively to the return performance but to a lesser degree.

The overweight position fixed income, which is 23.6 per cent of the portfolio, was positive for the portfolio as fixed-income holdings slightly outperformed their one-year passive benchmark.

The 30.3 per cent allocation to alternatives and inflation-sensitive assets pulled the performance of the portfolio down as the returns on real estate and renewables were negative and below their one-year benchmark returns. The category underperformed in '23-24, with a minus 3.9 per cent return. Infrastructure investments earned 2 per cent while real estate and renewable resource investments were 7.3 and 4.7 per cent, respectively.

For the last five-year period the heritage fund performance has lagged both the passive benchmark return as well as the real return performance target. The real return target for the heritage fund is to earn an investment return of inflation plus 4.5 per cent over a five-year period. Inflation as measured by CPI was 2.5 per cent over the last five years; therefore, the target five-year investment return was 7 per cent. The heritage fund underperformed this target by .6 per cent over the period.

The fund's investment expenses were $172 million during the '23-24 fiscal year, which was $38 million higher than the prior year. This year-over-year increase includes cost attributed to a rise in AIMCo's assets under management as well as the investment manager's ongoing business transformation initiatives. The relative cost to the market value of the fund was .8 per cent, .1 per cent higher than in ’22-23. Above, those results are just highlighted.

I will end my presentation there and turn it back to you, Mr. Chair.

The Chair: Thank you so much for that, Mr. Thompson.

Next we’re going to have a video from AIMCo, and afterwards we will hear some opening remarks from Mr. Siddal and Mr. Prakash.

[A video was shown from 6:48 p.m. to 6:49 p.m.]

Mr. Siddall: I’ll take over. Thank you, Mr. Chair. Thank you to you, to members, guests, and members of the public. I’m happy to make a couple of comments on behalf of AIMCo and have Amit elaborate on some performance numbers as well.

We work on behalf of 15 clients, and we’re very proud that one of those clients is the heritage fund of Alberta. We are a long-term global multiasset manager. It was said we invest in I think it was stocks, bonds, and real estate. We invest in private equity. We invest in private debt, loan, infrastructure, and renewables. I may not have mentioned that it’s $170 billion.

6:50

Now, I should tell you that these spastic movements are because I have Parkinson’s disease. I’m managing my meds, and they’re not working great. So if you can manage the distraction, I can.

Our strategy has three parts to it. The first is to put our clients first. You will know that that’s in response to trading losses in 2020 and the suggestion by some clients that we were putting AIMCo first and not the clients first. It has been our deliberate mandate to make all decisions in the best interests of our clients and to ask Amit to head a group called fiduciary management, who work on behalf of our clients.

Secondly, because we work on behalf of 15 different types of clients, we want to have an adaptable investment platform, a platform that works regardless of what they are investing in and what their investment objectives are. These include insurance companies, crop insurers, a credit union. God, Amit, this is really not easy.

Then, finally, the third part of our strategy is to invest in our people. We invest in leaders. Actually, Amit and I have stepped out of an annual leaders conference to be here. It’s a big part of what we do. Our engagement scores with clients are top quartile; in fact, top decile compared to our peers. Compared to our peers, while we are a long-term investor and we’re talking about one year’s performance in the past fiscal year, even that year I think we were only beat by one of our Canadian peers in performance. It was a very, very difficult year.

We also operate as a low-cost manager. We are a bottom quartile from a cost point of view in terms of our direct costs as AIMCo. Performance fees are of course earned by the managers who work on our behalf.

I think what I’ll do there, because this is making me nuts, is hand off to you.

Mr. Prakash: Okay. Thanks, Evan.

Good evening, all. Again, Amit Prakash, chief fiduciary management officer. I will add some colour to Mr. Thompson’s presentation on heritage performance. First and foremost, I’ll start with repeating what Mr. Thompson said. The one-year performance through end of March was 8.1 per cent, but to zoom out and focus on the longer term, the 10-year performance for the heritage fund was 7.6 per cent, ending March 31 of this year, which was ahead of both the real return benchmark as well as the policy benchmark across both those reference returns.

The second point to highlight is the policy mix that the Treasury Board and Finance team delivers to us. We are responsible for implementing it but equally working closely with the Treasury Board and Finance team and other clients, to interact with them to the extent as managers as we review the portfolios, as we look at the markets, to share insights and work collaboratively for the greater good, if you will, for the heritage fund and, ultimately, Albertans. And from that dimension, the fact that the portfolio is diversified across real estate, across renewables, across public equities, et cetera, the huge benefit of that portfolio is, on the one end, public equities being up almost 24 per cent whilst real estate was down 7.3 per cent, that the combination of having exposure to a wide set of asset classes ultimately held and drove the overall performance of the heritage fund.

Two other quick remarks. Clearly, returns: very important and central to our deliverable. Equally is managing the risk of the heritage portfolio. On that dimension, we measure, monitor a host of risk metrics that, again, we utilize for managing the fund as well as reporting to clients. Happy to report that the fund was managed within the risk parameters as specified to us.

And, finally, one of the other critical parts, particularly for institutional pools of capital such as the heritage fund, is the liquidity profile of the fund. The most recent number for the heritage fund was that, roughly, for each dollar of exposure the heritage fund has two and a half dollars of liquidity that is available, whether it’s through the public investments, public equities, fixed income, et cetera. All of that to say that not only the returns were attractive over the longer term, but from a risk perspective, from a liquidity perspective the heritage fund continues to do well.

Mr. Siddall: And without being too technical, what Amit is talking about is that we take a look at the amount of money we may have to pay out over 90 days, whatever that number is. So he’s saying that we have two and a half times whatever that 90-day number is in hand.

Mr. Prakash: With that, back to you, Mr. Chair. Thank you.

The Chair: Mr. Siddal, Mr. Prakash, thank you so much for taking the time for that. That’s fantastic.

Before we open the floor to questions, I would just like to remind everyone that we encourage Albertans to join the conversation and submit your questions to the committee and our panel of experts. If you would like to participate, you may come in person to the Queen Elizabeth II Building until 8:30 tonight. Again, we’re just north of the Legislature. You can phone in by calling 1.800.717.1738, conference code 49609. You can also submit your questions via the web form on the committee’s website, and you can also e-mail questions to committee.admin@assembly.ab.ca, and you can also post questions on Facebook or X by using the hashtag #abheritagefund.

With that, we will now open the floor to questions from members of the public. I think it’s important that perhaps we give those who have taken the time to come in person the first opportunity to ask those questions, and I do see two people directly across from me there. That is fantastic. Sir, I do ask that you do state your name for the record before you begin.

Dr. Ascah: Well, thank you very much, Mr. Chairman. Robert Ascah.

I’ve got some questions that will take us back a little bit in history to two years ago, when your colleague the deputy chair, Mr. Rowswell, was the chair. At that time I asked the co-CEO of investments, Ms Lau, some questions about the heritage fund’s report in 2020 that basically said that the Alberta growth mandate closed down and all investments met the target. In the discussion in *Hansard* on HS-221 – and that was in October '22 – she indicated that Trident was one investment that they would basically get nothing on. So my follow-up question was, essentially: how can the government, how can the minister and the people that write the report for the minister have made that claim?

Now, Mr. Epp answered, "We are not prepared for that question," and Mr. Rowswell, then the chair, said: "Maybe we can get a written response later if that's possible. Okay. All right. We'll get a written response." Now, two years after the fact, that shows you how well organized I am. I'm not sure if there's a statute of limitation, but I'm wondering if I can at least get some reaction or some idea as to whether that claim could be examined again and corrected if that, in fact, is required. So that's my first question.

I'll have some other historical questions, but do you want me to go on?

The Chair: Perhaps, Dr. Ascah, we'll allow them to answer your first question. Is that fair?

Dr. Ascah: Okay. Great.

7:00

Mr. Prakash: Thank you. Thank you for the question. In terms of the return of specific investments we don't have the data here in front of us, but happy to follow up. Likewise, as you suggested, if there was a written response that we provided in 2022, again, we can follow up to ensure that that's available to the committee.

The Chair: Thank you very much for that.

Mr. Thompson: Certainly, from the department side, I can't speak to what was promised in 2022. We can apologize for not having provided it, and we will follow up with that question.

The Chair: With that, I understand we have one question on the phones. Perhaps we can proceed to that.

Mr. Hunter: Mr. Chair, can I get some clarity?

The Chair: Go ahead, Mr. Hunter.

Mr. Hunter: I just want to get some clarity. How will the follow-up happen?

Mr. Thompson: We will go back to the 2022 reports. We will examine the issue in question in terms of investment return and loss, and we will provide full details on what we can find.

Mr. Hunter: Will it be posted so that the doctor will know? When would the next time be that he can find this information out?

Mr. Thompson: We can certainly get it directly to Dr. Ascah, as it is his ask, but we will provide it through this committee for approval before we do so.

Mr. Hunter: Thank you.

The Chair: All right. With that, we will go to the phones. Hello. You're on the line. Hi there. If you're on the line, please go ahead. Please introduce yourself, and then ask your question.

We can always come back to the phones if there's no question.

Back to our members from the public. I understand perhaps you might have another question, Dr. Ascah. Please go ahead.

Dr. Ascah: Thank you, Mr. Chairman. This is a follow-up from 2023. The reference is HS-32, and it pertains to a question that MLA Kayande asked of the department. It very much goes to the heart of disclosure. As you know or committee members know from last year, the heritage fund doesn't have a really distinguished record in disclosure other than in 2011, when they did issue a 103-page report which listed all the investments. So it's quite clear that AIMCo would have a list of all the investments.

Now, Mr. Kayande was answered by Mr. Epp to the effect that the lack of disclosure is for economic reasons, not for political reasons. I just want to push back on that a little bit in this year's public meeting. It just seems to me that if the Norwegian State Pension Fund and the CPP Investment Board and CalPERS can release their investments, why doesn't the public in Alberta know the investments that are being made?

What I'd like to explore with the department or with AIMCo is some clarity on that. Like, for example, in private equity do the contracts require that this not be disclosed? I mean, now, the heritage fund is a public institution. It's different than BlackRock. I just wonder whether there's something in real estate that, for some reason, they don't want to disclose or if there is some other transaction that is being contemplated.

What the other funds do is that they provide information typically every six months or every quarter, and that's usually reported 90 days afterwards, so I'm really trying to struggle to understand why there's this big blanket over the heritage fund. You know, it leads some people at least to think that there's something being hidden. So that's my question, Mr. Chair.

The Chair: Thank you so much for that, Dr. Ascah.

Mr. Prakash: Thank you for the question. I'll speak to the part on behalf of AIMCo as the investment manager. We work with all of our clients, as you said, and as you would expect, you know, we, of course, have holdings into the final detail, but we work with our clients in terms of what is disclosed to the general public. That's how we operate across the board.

Mr. Siddall: You know, we are endeavouring to make our disclosure more consistent with the others. We are constrained, as some other investment managers – the Caisse de dépôt, for example, has I think nine clients – again, by what our clients request of us. It's typically not, Dr. Ascah, a fund requirement that we not disclose. Listing companies is usually fine. Listing the value of the investment in that company is often more difficult and proprietary or thought to be proprietary.

Mr. Thompson: And from the department's perspective I can't comment on things that my previous colleagues may have said here, but I will say that we are comfortable with the current level of disclosure. We feel it gives an adequate portrayal of the risk associated with the total fund. And there are certainly commercially sensitive reasons to not disclose, particularly in the private space, yes, in terms of top holdings in public equities and then credit even. There could be more. But I think what is presented in the report is adequate to assess the performance of the fund.

But always we are looking to improve our communication with the public and our disclosure, and we will definitely take under advisement Dr. Ascah's comments.

The Chair: Thank you so much for that.

Next we have some questions online, so I'm going to go to Mr. Rowswell.

Mr. Rowswell: Okay. Thank you very much. Yeah, we do. If you send in e-mails, that gets accumulated and sent to me, and then I ask the question, so we can go from there. Carol from Grande Prairie: "How can the Heritage Fund be taken out of the hands of the politicians and put into a decent investment . . . like CPC?"

That might be more you guys.

Mr. Thompson: I will say that there is no political involvement when it comes to setting the investment goals and targets of the heritage fund. It is enshrined in the legislation that the minister is responsible, but the allocation decisions have been delegated to finance professionals at the department, and we communicate those to the finance professionals at our investment manager, AIMCo. So I can assure our Albertan writing in that there is no political interference in the investment of the funds.

Mr. Rowswell: Okay. Thank you.

Next question, that might be over to AIMCo maybe, is Michelle from Edmonton: the "S&P has a return since 2019 of 16.69% per year, why are Albertans getting such a poor return on investment?"

Mr. Siddall: Well, it's not an entirely fair comparison. That's a comparison of public equities, and our performance of public equities would be equally strong. You may want to elaborate here, Amit, but a portfolio approach: we invest in fixed income and several other asset classes that will perform well when public equities don't. The idea of a diversified portfolio is that over the long run you have more consistent and reliable, superior returns.

Mr. Prakash: And just to add to that, Mr. Chair, as you saw earlier in the committee meeting, part of the objective of the heritage fund is to deliver on the returns but with a strong risk lens to it. That's what a portfolio such as heritage allows it to do, and therefore it has fixed income, real estate, et cetera. Certainly, over this period the return was lower, but equally the risk was lower, so what you get is both the risk and return going hand in hand. Thus, comparing it simply to S&P 500 is inappropriate, from that perspective.

7:10

Mr. Rowswell: Okay. Thank you very much.

I think the chair has a question on the phone again that we're going to try.

The Chair: That's correct.

For the caller on the phone, if you are able to, please ask your question. The floor is yours.

Okay. Thank you so much for that.

With that, we will go back to Mr. Rowswell for the online questions.

Mr. Rowswell: Okay. I have two more here, and then maybe we'll go back to the room here after this. This may be a question – I'm not sure if anyone can answer it. Some of the questions I get in aren't in the realm of the people that are here answering questions, so if that's the case, I maybe won't do them.

This one is Matthew from Edmonton:

> Has the committee considered converting the fund to a dividend paying wealth fund similar to the Alaska Permanent Fund, where all Alaskan citizens own a share of the fund and are given a dividend each year based on a 5 year rolling average,

with funds returned amounting to about a thousand bucks per person in 2017?

That might be a question for you guys.

Mr. Thompson: Certainly, we are aware of how the Alaska Permanent Fund is managed and its strategy to pay out dividends directly to Alaskans in cash. That, in effect, is very similar to the way the heritage fund had been managed up until we stopped drawing funds out. It's just that the funds were directed directly to Alaskan citizens rather than put into general revenue to be spent on government priorities, as they were here in Alberta.

The decision was made in 2021 to stop drawing the cash out of the heritage fund and instead to grow it. All of the earnings in Alberta are retained in the fund so that it can grow so that it can have a meaningful impact when it reaches a critical mass in the future, with the hope that eventually we'll replace or supplement income from the fund as natural resource revenue depletes. We would rather invest for the future than to pay that cash out now in what would probably not be life-saving amounts to Albertans.

Mr. Rowswell: The last question in my first set is – and this one I don't think anyone can answer, but I just want to give an example of maybe what not to ask. It's Kendall from Lethbridge: "Can the fund be used for new infrastructure? Lethbridge really needs a new bypass highway." That's more of a government decision. The people that are here don't make those decisions. So that's an example of a question that can't get answered at this venue.

Go ahead, Tany.

The Chair: Thank you so much for that, Mr. Rowswell.

With that, is there anyone else from the public in the room that may be interested in asking a question? Again, please just introduce yourself for the record.

Mr. Meeker: Certainly. Thank you. My name is Greg Meeker. Something back from the intro: is the fund adding value through active management? In particular, I'm looking at note 8(c) in the annual report. "In the [statement of investment policies and goals], the Ministry of Treasury Board and Finance expects that the investments held . . . will return 1% above the policy benchmark over a rolling five-year." Now, I'm interested – of course, we didn't make that this year, our rolling five-year. We were underneath the policy benchmark, never mind the target that's above the policy benchmark.

I want to be reasonable. Out of how many years how often would we expect it to be reasonable that we would hit the active management target of 1 per cent above the policy benchmark on a rolling five-year?

Thank you.

Mr. Prakash: Thank you. Thank you for that question. There isn't really a magic number other than looking at the longer term. Particularly, what I mean by that is that the last five-year period includes the highest increase in inflation that we've seen across multiple generations. Particularly, that has impacted the inflation-sensitive asset classes, including infrastructure and real estate.

Mr. Siddall: And fixed income.

Mr. Prakash: And fixed income. Of course.

Secondly, the real estate portfolio was also impacted by the aftermath of COVID. So over this particular five-year period, Mr. Meeker, you are right. It is behind relative to the benchmark. Over the 10-year period – and I have the numbers here – relative to the policy benchmark it's ahead of 50 basis points, and relative to the real return target of CPI plus 450, it's ahead by 110 basis points over the 10-year period. Hopefully that helps.

Ms Jones: I would just like to echo Mr. Prakash's comments on the fact that we are long-term investors, and although this is set over a five-year period, the performance over the longer term has met that target.

The Chair: Okay. With that, we have two more questions online. Mr. Rowswell.

Mr. Rowswell: Okay. Milo, I don't know where from, but: "For your real estate and private equity investments, are they carried at book with profits only realized at the time of sale? Or marked to market on a regular basis? If [marked to market], how frequently?"

Mr. Siddall: They are mark to market annually. We would do it more frequently. In particular, the cost of assessing the value of a real estate project is quite intensive. That typically is done annually, but it's done more frequently if the information is available in other asset classes.

Mr. Rowswell: Thank you very much. Another question that probably can't get answered here, but I'm using these as examples of what not to ask: would the Alberta government consider taking $1 billion from the fund to create an Alberta tax collection agency? Again, that would be a government decision, not something that the people here would answer. So you can carry on.

The Chair: Thank you so much for that, Mr. Rowswell.

Why don't we change things up and see if His Majesty's Official Opposition perhaps has a question.

Member Kayande: Yeah. For sure. It's a question I often ask at the quarterly meetings. The Premier has stated that she wants to get to a $250 billion to $400 billion dollar heritage fund. She promised a plan to make that happen by the end of this year. I don't recall if a plan has been proposed, and we're getting close to the end of the year, so I just wanted some feedback on where that is.

Ms White: Yes. I am happy to report that is still the goal. By the end of this calendar year there will be a report and a plan released.

Member Kayande: Okay. Thank you.

The Chair: Thank you so much for that, and we'll next go to the government side.

Mr. Wiebe.

Mr. Wiebe: Thank you, Mr. Chair, and thank you all for being here and for your efforts to grow the savings trust fund. I have a question relating to the report, specifically regarding real estate investments. Page 15 notes that real estate investments have been a struggling asset class with higher interest rates and a work-from-home trend which has negatively affected commercial offices and downtown markets since the pandemic. I also see on page 10 that the inflation-sensitive and alternative assets lagged in '23-24, mostly due to real estate. What are your projections for real estate investments and an asset class going forward?

Mr. Prakash: Thank you for that question. Certainly, in most of our client committee settings, that is a very popular question and has been for the last year and a half. What has been in the headline and what has been the weak link in the real estate portfolios typically have been two areas. One is commercial real estate, and that is the reference to, you know, going back to working from home, the hybrid working arrangements, and that's still evolving. Then the second was retail, that was particularly hit hard by COVID but equally as an aftermath by the online purchasing of goods. Across those two areas we feel that on the commercial real estate there is still pain ahead of us. I think we're getting closer to the bottom but maybe over the next year, year and a half. Retail, you know, has started to actually flatten out and improve.

7:20

On the other side of the portfolio, the part that normally isn't in the headlines, is the growth on the warehouses, the distribution. Think about Amazon and all the things we get delivered, multifamily alternative housing – that has done really well – data centres, self-storage, et cetera. So there is at least a big chunk of real estate that has actually done well, but given the preponderance of commercial real estate, typically shopping malls and retail, the portfolios have struggled.

Mr. Wiebe: Thank you. How long do you expect this trend to continue? Or do you see any changes at all?

Mr. Prakash: We do expect – as I said, the retail is starting to turn around, and many of the retail shopping malls, et cetera, are also getting repurposed in that you see a lot more services and a lot more experiential stores, whether it's our own malls in the city here or across the country.

The commercial real estate, the office buildings: that is a slow burn. Now, what we are doing in our real estate portfolio and the portfolio that heritage fund owns is we've taken a hard look at what we hold in the strategy. We've refreshed the real estate strategy, and we are in the second year of rebalancing the portfolio, if you will, relative to what we see, where the opportunities are looking forward.

Mr. Wiebe: Thank you.

The Chair: All right. Now, perhaps we'll go back to any members from the gallery who might wish to have another question. It's just you two.

Dr. Ascah: I thought that these other folks would . . .

The Chair: Oh, they're just here for their good looks and charm.

Dr. Ascah: Well, I'm afraid I'm going to have to push back a little bit on the disclosure, the answer. I kind of heard two answers. One is "No problem with public equities" from AIMCo. I wasn't sure if the department was ad idem on that. But I also wonder: to what extent – for example, your U.S. holdings – would you have derivative positions? Would you have passive investments, and would those be subject to disclosure?

Now, why I want to push back a little bit is the comment from the department about: our disclosure is adequate. Yes, the top 10 holdings are there, but with the Alberta growth mandate – and I hate to come back to that again, but there was a listing of all the commitments, the type of instrument, and it dawned on some of us, that have difficulty sleeping at night, that we could dig into this story and discover some of the issues there, that have both political finance and energy dimensions to them, that are very important matters for the public here in Alberta to understand: where is the money going to, and what were the conversations between AIMCo and the investee companies, and why was the province, through the heritage fund, spending two-thirds of the growth mandate on energy investments at a time when the industry wasn't growing? It was collapsing. Now, that was then; this is now. But my point is that I think to be able to go down to a granular level and not rely on the top 10 holdings is really the way to go because I think everyone in this room wants to see and has the same goal of improving the performance of the heritage fund.

Again, back to this theme about disclosure: transparency, sunlight is a very good thing. It's a very healthy thing. It might make some people uncomfortable, but the public is entitled to

understanding how these investments were made. That's more of a comment than a question I'm afraid.
Thank you.

The Chair: Did you have a question?

Dr. Ascah: Well, yeah. It's actually a little bizarre; that is, the presentation that was given by the department: I noticed that its classification is protected A. Now, does that mean I can actually FOIP it and actually see it? Or maybe I could have an explanation about what protected A means.

Ms White: I can take it. I guess maybe we'll just start with: protected A is the default classification for a transitory document or commercially or cabinet-sensitive. It is too high of a classification for a public meeting, and this is declassified, so no longer protected A.

In response to your comments around disclosure, we will consider additional disclosure. I can envision a time that we would be disclosing the back and forth of investment decisions and conversations in any type of disclosure simply for the commercially sensitive nature. Again, we will have a look. We will consider additional disclosure, and weighed up against that will be the potential risks and costs, but we will commit to seeing if it's feasible to do additional disclosure.

The Chair: Thank you so much for that, Ms White.

With that, we do have a caller on the line. Please go ahead with your question.

Ms Sackela: My question is: has the heritage fund invested in other oil and gas companies that have gone bankrupt like Trident, and which ones?

The Chair: For you who just called in, would you mind introducing yourself again, please?

Ms Sackela: Yeah. Rose Marie Sackela, Rocky Mountain House. Has the heritage fund invested in other oil and gas companies that have gone bankrupt like Trident? Which ones?

The Chair: Thank you so much for your question.

Mr. Prakash: Thank you for the question. To answer it fully and completely, AIMCo was founded about 15 years ago, so again, we can take a look at the records and respond. What I would say is that at least in the recent past there hasn't been any instance where that's been the case.

The Chair: Thank you so much for that. Did you have a follow-up online?

Ms Sackela: I had another interest in the $10 million loan made to Pieridae Energy to purchase Shell's old oil and gas wells up and down the west side, and that $10 million was then turned into stock instead of being paid back to the heritage fund or to AIMCo. I believe that stock is now worth pennies, but at the time it was $2 or $3. So what's the situation with that? Pieridae is P-I-E-R-I-D-A-E.

Mr. Thompson: We're certainly not aware of that specific investment. We can go back to the records and see, but it is not one that I am in any way familiar with. Did you have a sense of when that investment was made and when it was defaulted on?

Ms Sackela: I think it started in 2018 or '19, and it was a loan from AIMCo then turned into stock instead of paying it back.

7:30

Mr. Thompson: I'm unaware of any loan programs offered by AIMCo, so I wonder if we're confusing this with a different government program. But we can certainly, on our side, go back and see if we can find that investment.

Ms Sackela: Okay. How would I find out your investigation on both of those?

Mr. Thompson: It would come through this committee. If you could leave your details with the operator perhaps.

Ms Sackela: Sure. Thanks.

The Chair: Rose Marie, if you're on the line, we're going to go through the committee on that one. We will get your contact information, but we will communicate through the website.

Ms Sackela: Okay. Thank you.

The Chair: Rose Marie, just for your knowledge, the answer will be returned through the committee. At that time we will ensure that's published online. If need be, we could perhaps communicate directly as well.

Ms Sackela: Am I leaving my information with the operator, then?

The Chair: If you're able to e-mail us at committee.admin@assembly.ab.ca, we'll be able to respond to your e-mail. Is that fair?

Ms Sackela: Okay. Yeah. I'll do that. Thanks.

The Chair: Thank you so much for your questions.

With that, we will next go to Mr. Kayande with a question.

Member Kayande: Thanks. Maybe I should have jumped in because Pieridae was one of the names I used to cover but back before I was a politician. AIMCo definitely had a position in its debt, and it was definitely closed out in a debt for equity swap.

I have another question about a similar workout with Razor Energy. This was another one where there were dividend payments, you know, when the company was loaned, and then it went sideways with a debt for equity swap and now is in bankruptcy. I believe Razor is in default of its property taxes as well, which is kind of an unusual situation, I guess, a company funded by AIMCo actually being in default of its property taxes to Alberta municipalities.

I guess my question is generally around these sorts of resource credit investments. They do go bad. The assessment of the resource quality is exceedingly difficult. Is this an area where you think you have an edge? You know, like, is there a strategy around this that you think is any different than any of your other private credit types of strategies? To be clear, I'm not litigating the fact that investment goes bad. I recognize that investments go bad. What I'm trying to figure out is: was there any learning from this? You know, Pieridae is an example of a company with a particular kind of asset quality. Razor is another one. These are kinds of companies that tend to go sideways.

Mr. Prakash: Thank you for the question. Just a quick bit of history before going to the crux of your question, you know: have you learned anything from that experience? Just by way of background AIMCo first invested in Razor Energy in January 2017, and that was a $45 million first lien loan facility. That was the first instance. Then we had subsequent two transactions, roughly $5 million each.

Mr. Siddall: Equity.

Mr. Prakash: Equity. Excuse me.

At that time, at funding, we thought of Razor as a junior oil producer. There was an attractive opportunity to develop light oil pools in central Alberta. That was the investment thesis. Prior to the oil collapse in 2020 due to COVID the company was in reasonable shape and the thesis still held, but clearly after the oil collapse that wasn't the case. Over time our teams felt that Razor's upstream operations underperformed their expectations, and then we ended up having to deal with that situation.

On the broader question in terms of, you know, whether from that investment or any other investment, how that feeds into what we do with sectors and how we operate, one of the things that has happened over that period is a closer look particularly at that sector, that type of investment, that part of the percentage allocated to those types of investment. That has shrunk over time. But, more fundamentally, it's yet another lesson around underwriting and the fact that good fundamentals in the appropriate market environment lead to good outcomes.

Now, having said that, as you said, we will get these investments wrong once in a while, but I know that wasn't the point you were making.

Thank you.

Mr. Siddall: If I can add, because you asked a quite direct question: is this an area where we think we have edge? The answer is no. I can't comment on the sources of edge at the time this investment was made some seven years ago, but certainly not now. We would not make venture investments, let alone this type of investment, in this sector right now.

Member Kayande: Thank you.

I do have a follow-up, only because the previous questioner had said, you know, "Were there any other money-losing resource investments like Trident?" and we've just named two. Just pointing that out. [interjection] Yeah. Okay. Thank you.

The Chair: Thank you very much for that.

Just for clarity, for everyone online and who's called in, any answers that are written will be provided to the committee, and they will be posted on the website. You can also follow along at our next committee meeting, when we might acknowledge such answers as well. They will be on the website.

With that, we'll next go to Mr. Boitchenko.

Mr. Boitchenko: Thank you, Mr. Chair. Thank you to the Official Opposition and everyone that came here today to talk about the performance growth. Thanks to Dr. Bob Ascah for asking about even the history of the Alberta heritage savings trust fund. It's interesting to go back in time a little bit and learn from that as well.

I know we talked about it in the previous meetings, but just for the benefit of those who are joining us here today, I would like to ask about the asset class return versus the benchmark table. I see that in the past year the fixed income and the equities class both outperformed the benchmark, which is great to see. I also see that the inflation-sensitive asset class underperformed the benchmark, which, you know, makes sense to me, right?

Considering the cooling inflation environment we have seen in the latter half of the past fiscal year and the uncertainty around the rates, my question is: could you speak to your projections for the inflation-sensitive asset class going forward as we, hopefully, continue to see inflation fall?

Thank you.

Mr. Prakash: Thank you for the question. The inflation-sensitive and alternatives category that the heritage trust fund invests in includes real estate, infrastructure, the two key areas, and the third one is renewables.

7:40

On real estate, as you heard me describe to a previous response, there are parts of it that are still in the process of recovery, but there are other parts that are doing quite well. The longer term projection we have for Canadian real estate is actually 7.4 per cent, foreign real estate is 5.9 per cent, and infrastructure is 7.7 per cent. These projections that we have are something that we do on an annual basis. This is looking out 10 years, and it takes a pretty comprehensive approach in terms of building up those forecasts. That's the view we have. Again, more fundamentally, if you think about the big parts of the real estate market, particularly multifamily, it's again in the news all the time with the shortage of housing. We see that in logistics. Finally, infrastructure, again, certainly in North America, has been a central theme from a public policy perspective in Canada and the U.S. and other geographies. From all of those perspectives, those asset classes, we expect to do well looking forward.

Mr. Boitchenko: Thank you.

Something that's even more concerning to me is how significantly the strategic opportunities asset class has underperformed the benchmark, both in the past fiscal year as well as the past five years. On page 9 it says that the "strategic investments, which allow the investment manager to take advantage of new opportunities outside the three main asset mix categories, contributed a loss of $4 million during the 2023-24 fiscal year." Could you share with the committee here what types of assets are held within that?

Mr. Prakash: These are legacy investments which are in runoff mode. The exposure that the heritage fund has to those investments is relatively small. Again, these are areas that we're not actively investing in. These are in runoff mode. Again, over the next little while we do expect them to go to zero.

Mr. Boitchenko: I guess they're mostly legacy investments. Okay. Thank you.

The Chair: All right. Next we'll go to Mr. Rowswell for some online questions.

Mr. Rowswell: This question from Linda is kind of around asset allocation. I'll just read it, and then maybe you can describe where they can look to get that more detailed information if you can't provide that right now. "What % of the fund is invested in rental real estate, food production, manufacturing and retailing (groceries)? What % is invested in oil and gas sectors?" She says that writing in reply at a later date is good. Maybe you can just talk about your asset allocation mixture and where she might be able to get a detailed answer.

Mr. Prakash: We don't have the detail here, Mr. Chair. It's a very, very specific question in terms of what we own. We do, as I described, own real estate across a range of asset classes. The annual report also has some details on that.

Ms Jones: Thank you, Mr. Chair. From an asset allocation standpoint we look at broad asset classes and how those broad asset classes work together. In the opening remarks Mr. Thompson talked about equities, fixed income, alternative assets classes. We can take a look at that and what we can come back with on that, but they would be spread across the total portfolio. We can come back with a response that fits what we've been asked.

Mr. Rowswell: Thank you.

The next question. This is Milo again, and it was the mark-to-market question. He took your answer as just being relative to real estate. Is that the same case for private equity? Is it marked to market once a year, or how often?

Mr. Siddall: Yeah. It is indeed marked to market once a year. The funds themselves are marked to market, some more frequently, but our fund investments, our co-investments in private equity, our investments in infrastructure, all of our private investments we endeavour to mark to market annually at least.

Mr. Rowswell: At least. Okay.

Mr. Siddall: And, of course, for public investments the market prices are available, so they also are marked to market.

Mr. Rowswell: Okay. Thank you. That's it.

The Chair: Thank you so much for that, Mr. Rowswell.

I wonder if we can get some clarity for all these folks that have e-mailed and called in their questions. Is a lot of this information available publicly in any published documents?

Mr. Siddall: There's some significant information available on behalf of all of our clients, so not specifically to the heritage fund, on AIMCo's website, yes.

The Chair: Okay. So folks can go on AIMCo's website to . . .

Mr. Siddall: To get aggregate information for the total fund, which includes pensions, the heritage fund, and other clients.

The Chair: So just to clarify it for the public out there, some of the responses we might be able to refer to in the documentation that's already out there, and we'll provide those on the website. Yes? Thank you so much for that. That's fantastic.

With that, we will next go to our members of the public in the house here. Would either of you two like to go up and speak? Dr. Ascah.

Dr. Ascah: Okay. Well, I'm dredging things up here, but I will take the segue onto Razor Energy. In Razor Energy's case there was a press release, I believe – correct me if I'm wrong – that Seibu Investments was also involved in that, which is a wholly owned subsidiary of AIMCo. This may not be a proper question for this committee, but more generally, when AIMCo does their financial accounts, would you normally list all your subsidiaries including, you know, numbered companies?

Just one more question, and this might be for the department: does the cabinet have to approve or Treasury Board have to approve the creation of subsidiaries? I know that change had been made many years ago when I was with the department.

So a question about Seibu Investments and disclosure of subs, if a valid question, and the issue about cabinet, government approval of subsidiaries being created by AIMCo, which does tie into what it does for the heritage fund as well as other pension clients.

Mr. Thompson: I'll lead for a change and then let AIMCo follow on. Sorry. Yes, the creation of subsidiaries for any of our Crown corporations, including AIMCo, requires the approval of cabinet, so they are OC creations.

Mr. Siddall: In these structures we do not disclose all of our subsidiaries. It would be a burdensome disclosure, Professor Ascah. We do, however, in cases like this, disclose the fact that they exist. We disclose this relationship. These are not secret, and I think we've tried to make full-term, plain disclosure of the facts involving this particular situation.

Dr. Ascah: In terms of Razor and . . .

Mr. Siddall: And Seibu.

Dr. Ascah: In terms of that transaction. Yeah. Okay. Thank you.

The Chair: Thank you for that, sir.

Next, we're going to go back online. Mr. Rowswell.

Mr. Rowswell: Okay. This is from Sherry, and her question is: can you expand on where all the money from the fund is going? So maybe go through the history of how much went in and then how it came out, and there's an inflation adjustment left there, and then what we're doing now. Maybe just go through that history again.

7:50

Mr. Thompson: Sure. We can run back through a quick history, and I think our presentation will be available online as well through the committee, and it does outline that fairly well.

Originally the money went into the fund and not out at all, so 30 per cent of natural resource revenues went into the heritage fund as a savings vehicle. That was reduced over time as fiscal strains were apparent in the province. Eventually, we got to the point where no money was being directed into the fund and any earnings were drawn out of the fund and deposited into general revenues for general purposes, capital and operational spending.

That changed in 2022 when the government directed that all earnings of the fund be retained in the fund. That simply means that everything that the heritage fund earns remains in the heritage fund, and that money is reinvested. That is how we plan to grow the fund to the targets that the Premier has stated publicly of 250 to 400 billion dollars by 2050.

We will have more around that in a public report available by the end of this calendar year. But no money is being drawn out of the fund for the first time since 2008. This is the first time that we haven't been drawing money out of the fund. So I can assure our caller that everything's being reinvested, and the money isn't going anywhere other than back into the fund to grow.

Mr. Rowswell: The next question is from Robert from Calgary. First, he just wants to make a comment. He says that the

> Alaska fund and the Alberta heritage fund were both set up in 1976. Today the Alaskan fund is $70 billion while the heritage fund is $23 billion.

The question is:

> the Act states that the mission of the fund is to provide financial returns for future generations of Albertans. Would that not include allocating capital locally to innovation, venture capital, energy transition and other forward looking investments beyond Alberta based [publicly owned] oil . . . companies?

Ms White: Again, the department is setting the overall asset allocation. The fund manager is making the investments. The main reason the fund didn't grow as it did in Alaska is for the reasons stated earlier. We took all the income from the fund, and rather than giving it directly to Alaskans, as they chose to do there, the government brought it into general revenue, invested in capital projects and operational spending like health care and education that did provide a return to Albertans. It did not provide a financial return to Albertans.

When we go back to the change to set the default of the heritage fund retaining the income, which was introduced in Budget 2023, first decided at the end of 2022, it really, really changes the game, and it's one of the reasons that you've been able to see the fund grow so quickly in the last few years compared to what we saw before. In just the last two years we've seen growth of $7.2 billion through that decision to retain the income.

Now that you have the heritage fund retaining all its income and the Alaska Permanent Fund continuing to siphon off dividends, our expectation would be that at some point the heritage fund will overtake the Alaska Permanent Fund. Again, I want to reiterate that we are going to have a growth plan for the heritage fund out before the end of the calendar year.

Mr. Rowswell: Okay. Thank you.

I had another just come in, Linda from Calgary, and this is kind of on the relationship between AIMCo and the heritage fund. She just might need clarity on how that relationship works. "Has there been any investment swapping between The Heritage Fund and other AIMCo investments?"

Mr. Thompson: I'm pretty sure the answer has got to be no. No?

Mr. Siddall: No.

Mr. Prakash: The heritage fund is invested through what are commonly called pools, so that's how the investments are made.

Mr. Siddall: The reason I paused is that you could have the heritage fund increasing its investment in one pool while decreasing another, and that could involve a swap, I suppose, with a different client. But it's just an exchange, not in the sense that she meant, I'm quite sure, through the chair.

Mr. Rowswell: I think she meant that, you know, AIMCo has investments, and they are swapping. Like, AIMCo invests money for clients. You know?

Mr. Siddall: Yes, we do, and we have a client fairness approach to what we do, and we make sure that the pricing is done in a way that's fair to all; therefore, market pricing.

Mr. Rowswell: Okay. I'm assuming that's what she was asking, so thank you.

The Chair: Thank you so much for that, Mr. Rowswell.

Next we will go to Mr. Kayande.

Member Kayande: Thank you, Mr. Chair. On June 13 Premier Danielle Smith said: if we took a different strategy with those heritage savings trust fund assets, more like a sovereign wealth fund, that might give us more opportunities to be able to assist in derisking projects that we're finding difficult to be able to get financing for. Can you confirm whether that is happening or not?

Ms White: I can confirm that we will have a plan out by the end of the year. The plan will contain elements that the legislation is enshrined in today, which is returns first. We do not envision moving away from the returns-first enshrinement in the legislation for the heritage fund.

Member Kayande: Can you confirm whether you have had conversations with anyone from the Premier's office about asset allocations, about investment strategy, about specific investments?

Ms White: I can confirm that asset allocation, investment strategy, specific investments have all been delegated to the department, and we have not had conversations with the Premier's office on those matters.

Member Kayande: And specific investments?

Ms White: Certainly not specific investments. Maybe I should clarify. Of course, as we're looking at a strategy, one of the things we're going to consider is the asset allocation mix, but we have certainly received no direction from the Premier's office on a specific asset allocation mix. Of course, the words "asset allocation mix" would come up in any discussions around a future plan, but I can confirm that there has been no direction from the Premier's office on asset allocation mix or specific investments or specific strategy within that.

Member Kayande: Thank you.

The Chair: Next we will go to the government side. Mr. Hunter.

Mr. Hunter: Thank you, Mr. Chair. Earlier it was stated that we compare in terms of performance with other funds in Canada. The Canada pension plan investment fund: I think they're at about 7.8 per cent, that they get. Is it because of the economies of scale that they get a little better? I mean, $650 billion versus . . .

Mr. Siddall: If I may, Mr. Chair. They generally allocate much more than we do to private investments and in particular to private equity, so it's an asset allocation mix decision that they have made compared to our clients. AIMCo does not make asset allocation decisions. Our clients retain that responsibility to themselves, including the heritage fund and in this case through TBF.

The Chair: Thank you so much for that.

Are there any other questions from the audience in the house? Actually, sir, if you wouldn't mind. I think we have a young aspiring mind here that would like to ask a question. Please go ahead, young man.

Mr. McPherson: I'm up here because my mom wants me to look smart. She wrote down a question for me.

The Chair: Could you introduce yourself, please?

Mr. McPherson: Clive McPherson.

The Chair: How old are you, Clive?

Mr. McPherson: Fourteen.

The Chair: Attaboy. Thank you for being here.

Mr. McPherson: I see that the income generated this year was substantially higher than the last year. Can you speak to what drove that income and if you expect it to continue?

Ms Jones: Great question. Thank you. I can start. One of the largest allocations that we have within the fund is to equities. Global equities had a great year, so part of the allocation decision, to have that portion of equities in the portfolio, was helpful in driving the returns. I'll ask AIMCo to help us articulate as to how those returns were driven.

Mr. Prakash: Yeah. Equities are almost 45 per cent plus of the portfolio. Global equities are up almost 24 per cent over the 12-month period. In addition, one of the impacts on fixed income particularly is that as the yields go up, while the performance was negative, the higher yield meant larger income from any of those types of investments, including private credit, mortgages, et cetera. So both the combination of public equities, all of the fixed-income and the fixed-income-related assets translated into the greater income that the heritage fund had over that period. Great question.

8:00

The Chair: All right. Mr. Meeker. Did I pronounce your name right?

Mr. Meeker: Mr. Chair, that's Meeker.

The Chair: Meeker. Sorry about that.

Mr. Meeker: No worries. No worries at all. Thank you.

I'm going to just refer again to the annual report, note 7(a), para 2. Of course, we're referring to the investment expenses at 80 basis points for this last year that AIMCo has charged the Alberta heritage trust fund, and in para 2 it "includes $114 thousand . . . charged to the Fund by Alberta Treasury Board and Finance for investment accounting and reporting services," which makes sense. My question would be: "and $226 thousand . . . paid to PNYX [consulting] Group SA for professional consulting." I'm just wondering what kind of investment consulting they provide and where they're domiciled.

Thank you.

Ms Jones: Thank you for that question. Pnyx has been an adviser that has been working with us to develop some investment strategy which will be available in a report later this year. They are domiciled out of Switzerland, but they have also opened up a subsidiary out of Calgary.

Mr. Thompson: If I could, I'll just add to that. Pnyx was hired through a public RFP, request for proposal process, in accordance with government procurement policies. The monies charged back to Treasury Board and Finance are for audit services from our audit group.

The Chair: Thank you so much for that.

Next we'll go to His Majesty's Official Opposition. Mr. Kayande again.

Member Kayande: Thank you, Mr. Chair. It's a question about private credit. You've got an office in New York that I believe was set up to do private credit. I just can't help but feel as though the trade is getting a little bit crowded. You know, how is your deal sourcing going? Are you finding that you're still getting good deals? My nervousness around this is that credit always works until it doesn't anymore, and, boy, it seems like everybody and their dog is getting into private credit.

Mr. Siddall: We've been in private credit for quite a long time. That asset class has grown from, I think, $3 billion four years ago to it'll be 10 next year. So it's a lot of growth. It's offered terrific returns and, frankly, very few losses to our clients. It's right now an 85 per cent first lien business, and you're right to identify the New York office as a means of expanding that activity, although we already had existing professionals in both London and Toronto managing that portfolio at about $7 or $8 billion a year ago before Mr. Scudellari joined us, I think a year ago, maybe a year and a half.

One of his responsibilities is to make sure that that activity is largely done in co-ordination with financial sponsors. It's very much a financial sponsor driven game, and hence we are in the first lien category, so investment-grade generally or just barely subinvestment-grade. There are many more high-octane funds. HPS, for example, is one that's operating at the double-B area and lower and getting high returns for it. We think that's outside of the risk profile for our clients. For sure the credit: it's gone to a covenant-lite; therefore the contracts are lighter between lenders and borrowers in that market. We've backed off a little bit recently, and we're intensifying our due-diligence activities on deals. But so far we're earning the spreads and not taking losses, so it's been good for our clients.

But you're quite right. It's getting more and more crowded. Now, more and more crowded, I should say, among people like pension fund sponsors and insurance companies. But that's in part because banks, and in particular regional banks in the U.S., have abandoned the space. So they've pulled away, and we've filled some of the gap. The overall credit market really hasn't grown that much.

The Chair: All right. Next we'll go to Mr. Bouchard.

Mr. Bouchard: Thank you, Mr. Chair. I'd like to take a look at a highlight from this past year. Page 12 of the report notes that the global developed equity portfolio was the star performer this year, posting a 23.7 per cent return from the fiscal year. I also see that this asset class has performed fairly well over the past five years despite underperforming the benchmark slightly. And returning to page 11 for a more detailed look, I see in the past year, as well as over the past five years, the benchmark and actual returns for this asset class have both been generally higher than any other asset class. Given this performance, are there reasons for this asset class to not constitute a larger share of the fund's total investments than it already does?

Mr. Siddall: I'll let Mr. Prakash elaborate, but the answer is that it's riskier. That's the short answer.

Mr. Prakash: Unambiguously, public equities, global equities have been on a tear for the last five, 10 years, and particularly in the U.S., also, it's been concentrated growth. We do think as we look forward that whilst the returns would still be positive, you know, clearly it won't be going up 24 per cent every year. Now, there are a couple of things that are still supportive of public equities, and one of the things that we see is that still there is earnings growth. What is less likely is what is referred to as multiple expansion; effectively, you know, how cheap or expensive relative to the earnings growth can you buy a stock. That aspect seems to be quite rich and frothy; however, from the earnings perspective there is still a growth to be had. In summary, as we look forward, we still expect the growth to be positive but perhaps less so than we've seen over the last 10 years.

The Chair: Thank you so much for that.

Are there any final questions from our members in the audience?

Dr. Ascah: Thank you, Mr. Chairman, for your indulgence. Two questions, one on investment philosophy and then the second one more trying to summarize what I'm looking for as a requester of information on the Alberta growth fund. My investment philosophy question to both the ministry and to AIMCo is this. As I understand investment returns, you sort of have two sources. One is the capital gains or losses that are derived from selling or trading the stock or the credit instrument and then the dividend or the fixed-income coupon that happens. Is there any kind of cultural view at AIMCo or in the department about stability of income, let's say, that you would target 50 per cent capital gain, loss versus 50 per cent income?

Also, sort of, my question is to the incentive system that AIMCo people have. In terms of measurement process, in terms of the investing process, are there any incentives or disincentives to more active trading as opposed to perhaps more of a Buffett approach, which is that you buy them and keep them and then you build up cash reserves to invest in the next crash? So that's the first question.

Mr. Siddall: I will take a stab. As between capital gains and what I'll call current income dividends or interest payments, cash is cash, and it doesn't matter when and there's no real difference in terms of how we look at it over the long run, except I would say that an investment that does not pay current returns is riskier and therefore should pay us a higher return for that risk because there's just less liquidity in the investment unless there's a different way to get there. As to whether there is any difference in our incentive structure, no, I don't think so, other than, you know, we want people to be looking at superior risk-adjusted net returns, risk adjusted properly to make sure they account for the risk properly and net of necessary expenses. That's really how we look at it over a long-term period.

Do you want to add to that? Go ahead.

8:10

Mr. Prakash: Over the last maybe three years, roughly three years ago or so, one of the things we did from a compensation perspective was to ensure that we improve the alignment between AIMCo and our clients. Part of that change was to introduce absolute return as part of our compensation scheme in addition to return relative to a benchmark, the idea being that if we've outperformed by, you know, 50 basis points but the portfolio is down 10 per cent, we as well are in the same boat, if you will, relative to our clients. I think that speaks to how we think about the overall return rather than just segments of returns.

Mr. Siddall: If I may, Mr. Chair, not only have we done that, but we've also increased I think in the last year the amount that is attributed to absolute versus relative. Not only have we made that difference, but we have actually increased the concentration, the relative amounts.

Mr. Thompson: If we could add from the department perspective as the asset owner to the first part of your question on sort of income-generating assets versus growth: with the very long-stated growth mandate of the fund, not the growth mandate but the mandate to grow the fund, certainly, as we go into our next review of the asset mix, it's something that we will take into consideration. Because government is no longer drawing income out of the fund in the form of cash, we are able to consider longer term horizons when we consider the asset mix. So that will factor into how the fund is invested in the future and to what the new asset mixes will look like. That will ensure that the fund is invested to grow, but it will also mean that the fund is more difficult to draw out of in future years by design.

Dr. Ascah: Thank you.

So my final question is to sort of summarize the discussion around the Alberta growth mandate and that, from my perspective, I would like to see, really, a final set of accounts for the Alberta growth mandate. It was set up, I think, properly in the sense that you had all the commitments and the detail of the investments for Albertans to see, and then in 2020 the books were closed with no explanation other than: yeah, all the investments met their return. I think subsequent discussions show that that's probably not quite true.

What a very simple spreadsheet would show is the value at the commitment date and then the final value as at March 31, 2020. What was it worth? If the stock was trading and the heritage fund had a 100,000 shares of Calfrac at $1.20, then you do the multiplying, and that will give at least me some closure as a taxpayer that the accounts have been closed and that the public and the Legislature can evaluate whether this was a good experiment or not and what kind of questions it raises as to the investment strategy pursued by AIMCo on behalf of the government.

Thank you.

The Chair: Thank you so much for that final comment there.

With that, we will go to Mr. Hunter.

Mr. Hunter: Thank you, Mr. Chair. I just have one quick question. As we have changed our strategy with the Alberta heritage savings trust fund and are now retaining the earnings and putting money in potentially, hopefully, how does that affect the capacity of AIMCo in terms of just – the volume will be different, obviously. I mean, there should be some positives and some negatives. The positives would be economies of scale. But how does it affect you in terms of even how much you pay your managers? Does that change at all, or is it just on volume? How does that work?

Mr. Siddall: No. Basically, in the sense of you asking the question, it's just on volume. There would be more economies of scale with asset growth than any other effect. There'd be a small increase in expenses, but it's not that significant.

Mr. Prakash: To add to Mr. Siddal's answer, one of the things it does benefit, the heritage and all clients collectively, is our ability to work more effectively with our strategic partners. That's been an initiative that we've undertaken roughly two years ago. The idea is along the lines of what your question was: how do we take the dollars as the amount grows to remain impactful and get better economics? That's been the thrust of that initiative.

Mr. Siddall: To make a very simple example, if we invest a dollar in a fund, we're now asking for in-private debt $4 of co-investment. You, on your behalf: we pay no fees on that, so the fee has gone down 80 per cent in that particular case.

The Chair: Thank you so much for that.

Are there any final questions from our members of the public in the room? Young man? I just want you to know your mother is leading you down the right path; follow her.

There are no more questions online. There are no more questions on the line.

Seeing as there are no more questions, we're going to wrap up our meeting today. I'd like to sincerely thank all of you for your participation tonight. I think I can speak on behalf of the entire committee when I say that we have enjoyed spending the evening with you all and engaging in conversation about the Alberta heritage savings trust fund. In turn, we hope that you found the meeting productive and valuable.

There is a survey posted on the Assembly website and its Facebook and X accounts seeking your opinion on tonight's meeting and how we can improve it for next year. Any feedback you can provide would be very helpful.

To everyone who interacted with the committee or watched the proceedings this evening, thank you so much for your interest and participation. Your engagement regarding the fund and the work of the committee is greatly appreciated. We look forward to next year's meeting.

I will call for a motion to adjourn. Would a member move that the 2024 public meeting of the Standing Committee on the Alberta Heritage Savings Trust Fund be adjourned? Mr. Hunter, seconded by Mr. Brar. All in favour, please say aye. All opposed, say no. With that, the motion is carried. The 2024 public meeting of the Standing Committee on the Alberta Heritage Savings Trust Fund is now adjourned.

Thank you all so much.

[The committee adjourned at 8:18 p.m.]

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