

Standing Committee on The Alberta Heritage Savings Trust Fund Act

Tuesday, August 25, 1981

Chairman: Dr. Reid

1:30 p.m.

MR CHAIRMAN: Good afternoon, ladies and gentlemen. I'll try to start promptly so we have as much time available as possible.

First of all, is there any member of the committee who did not get the distribution from the Provincial Treasurer this morning. I think I've covered everybody now.

This afternoon we have the Provincial Treasurer here to meet the committee and to discuss with the committee the report of the Heritage Savings Trust Fund for the year 1980-81. I imagine the minister will also want to make an initial statement. We'll have that and then follow that with questions from the members of the committee. We'll let it ride as open as possible with as little interference as possible from the Chair. Mr. Minister, if you can start off then. Thank you.

MR HYNDMAN: Thanks very much, Mr. Chairman. My remarks at this time will not be lengthy. I did want firstly to confirm just for the record that the status report, which gives the government response to the 18 recommendations of the committee of last November, has been filed with the committee, I gather some days ago; and that, secondly, this morning a list of the senior investment staff and the qualifications of that staff was also tabled, which is a document essentially reflecting the one tabled in the Assembly this spring.

The two items on which I'd like to make a few brief opening remarks, Mr. Chairman, related firstly to four, what I guess we would call, new realities which face the heritage fund during the time period of the annual report, 1980-81, which began of course 16 months ago. Firstly, it is significant that the rate of increase of the 30 per cent transfer of non-renewable natural resource dollars to the heritage fund has dropped for the first time during the reporting period which we have under discussion. Secondly, it is significant I think that the investment income of \$0.75 billion now accounts for about a third of all the new dollars going into the heritage fund. So that represents, as page 6 of the report indicates, an ever increasing proportion of the moneys going into the fund are comprised of income. Thirdly, the new funds which are available to the fund by reason of the 30 per cent transfer and the income, for the first time during this reporting period, exceeded the requests for investment under the four investment divisions. That is the first time that has occurred, and therefore there had to be resort to Section 9. Fourthly, of course during this reporting period of 1980-81, the investment climate was what one might describe as being highly volatile. It was certainly unprecedented in the unpredictability of all the markets during that time period, with the bank rate swinging up from a high of 17 per cent, a low of 10 per cent, and therefore having wide variations in terms of investment patterns and returns.

The second item on which I'd like to offer a few brief comments, Mr. Chairman, was simply to underscore the unique characteristics of the investments of the heritage fund because I think it's important that we do

that from time to time, particularly in this committee, bearing in mind the Section 13 mandate of the committee to review the investments. We should all remember, I think, that 90 per cent of the fund's investments are income earning and that the characteristics of those investments are unique because, put together, those investments have characteristics which are found only with the Alberta Heritage Savings Trust Fund, and therefore they make that fund unique from all other similar kinds of funds in Canada or in the western world.

Firstly, among those characteristics, the investments are of a long-term nature. They are committed. They're locked in for the long term, and they're not cash. Less than half of 1 per cent is in cash form.

Secondly, most of the income-earning investments are in high quality debt securities. There are some advantages to having equities, and we're moving into that of course. But the investment in debt securities provides a continuous cash flow which equities do not. It provides that cash flow for reinvestment. It provides it in such a way as to meet the objectives of a savings fund. If you have other kinds of funds, with other investment objectives, then debt securities may be a different approach. So debt securities provide predictable and regular income to the fund.

Thirdly, the investments which are in the fund relate to and reflect a very strong commitment to Alberta. Most of the investments in the fund, two-thirds of all the income-earning investments, are in the Alberta investment division to strengthen or diversify the province. I think that's appropriate. I think Albertans would feel concerned if a very significant proportion of the heritage fund was not invested to build this province.

Fourthly, the investments are non-interventionist. They are not made in such a way as to be a threat to the Alberta private sector. Instead they complement the government philosophy of providing a climate for investment, an environment for risk-takers and entrepreneurs. So it's a non-interventionist approach to investment.

Lastly, the investments I think reflect the appropriate and acceptable level of risk, bearing in mind they are public funds. They are not private funds. They're not corporate funds. They are public funds which, I think, call for a level of risk that reflects sound and competitive yields rather than frivolous or high-risk investment management approaches.

With those brief remarks, Mr. Chairman, I'd welcome questions from the committee and welcome the advice of the committee in the weeks ahead.

MR CHAIRMAN: Thank you, Mr. Minister. First is the hon. Member for Little Bow.

MR R SPEAKER: Mr. Chairman, I'd like to just relate to the minister with regard to the secondary discussion; that is, the investment of the fund. When we look at the report as of March 31, 1981, the rate of return and yield on the investments averages out to 11.6 per cent. That's somewhere between 1.5 and 2 per cent below the inflation rate during that same period of time in Alberta and even in Canada. I wonder if the minister could indicate, in the present year, the current year, what steps are being made to possibly bring our investment rate of return at least equal to the rate of inflation or up. Are some measures being taken at the present time? The five objectives of the fund, those parameters I see, create certain limitations, but possibly there are some other steps beyond this that the minister is taking. I'm sure the minister is concerned that the fund is not yielding a return equal to inflation or even greater.

MR HYNDMAN: Firstly, I think we have to remember that it is a long-term fund and that it's proper, when looking and comparing the yield of the fund to inflation, to look over a time period of more than one year. So looking at the four years in which the fund has been in operation, there is a balance and a keeping up with inflation in a general way, and that's certainly the goal we would have. This year that did not occur, but we have to look at all four years.

For next year one of the initiatives which we will be taking of course -- the Legislature permitted the fund, with its most recent amendment to it, to invest in equities, in stocks, initially in Canada. That is in the process of being initiated now. I should make it clear though that the effect that will have during this existing '81-82 fiscal year on the fund will not be that significant because there are not those large amounts of money available for investment under the commercial investment division this year.

MR R SPEAKER: The restraining factor then seems to be the long-term investments within the fund. Is there any consideration of terminating any of those long-term investments, or can they be terminated in terms of contract? At the present time we're losing over \$100 million if we think in terms of the rate of return relative to the rate of inflation. Are any considerations being given to that approach?

MR HYNDMAN: Well of course some of the investments and many of the longer term investments are in the Housing Corporation, the Municipal Finance Corporation, and Alberta Government Telephones, particularly in years one, two, and three of the fund. You're correct that if those were realized today there would be a loss involved, so it would not be wise in most cases to do that. From time to time there are -- and the annual report reflects -- decisions taken to sell some investments now in order to get a better rate of return on others. But generally speaking, because the fund relates to investments in the province of Alberta, the long-term goal, as I say, is certainly to keep up with inflation. But with the addition of equity purchases, there would be a balance in there. It's very difficult, though, to predict what the future will bring, and the market, as I said, is very volatile.

MR PAHL: Mr. Chairman, if I can pick up on that as a supplementary question. If that objective of the hon. Member for Little Bow is to be reached, would that mean we would have to charge full market on Alberta Housing, Alberta Home Mortgage Corporation, and Alberta Opportunity debentures? Is it not a clear understanding that the money made available is less than market?

MR HYNDMAN: No. The money loaned by the heritage fund to those Crown corporations is at the market rate of return. In other words, it's the same rate of return and has been over the last number of years. It was even at, what, 10, 11 per cent some years ago. So that is the market rate of return. Those programs of course offer subsidies to people who are home-owners, to municipalities, farmers, and small business men, as the hon. member correctly pointed out -- very significant subsidies. But those are provided from the General Revenue Fund moneys of the particular departments.

MR PAHL: But the long-term debt commitment means that you're accepting a rate less than -- as was suggested -- a maximum profit by the nature of the investment you make in those debentures because they're long term. Otherwise

you'd make them for one or two years for Alberta Housing Corporation, whatever.

MR HYNDMAN: That's certainly what people are doing. Investors nowadays are moving in recent months to shorter terms, and that's probably one of the investment characteristics the heritage fund will be following up as well.

MR PAHL: But not with respect, I hope, to Alberta Home Mortgage Corporation, Alberta Housing Corporation because . . . If I may, Mr. Chairman, my supplementary question on that point was a result of an announcement in the Edmonton area that the Alberta Home Mortgage Corporation had, in effect, lent its quota to builders, and they were reassessing whether they would be lending to more builders to build because it would mean moving funds from different parts of the province. Mr. Chairman, I wonder if the Provincial Treasurer might indicate whether the investment committee has considered prioritizing the desirability, if you will, of the debentures within the Alberta investment division. In other words, would Alberta Government Telephones, if you will, be sent onto the open market before the Alberta Housing Corporation or Alberta housing, should there be a shortage of funds?

MR HYNDMAN: So far the investment committee has not had to do that but the question is pertinent in the sense that, as we pointed out in the budget speech, well over three-quarters of all the moneys available to the heritage fund this year are being absorbed by the housing corporations, Municipal Finance Corporation, AGT, ADC, and the Agricultural Development Corporation. Clearly, therefore priorities will have to be set and options such as that suggested will have to be looked at.

One example, a reflection of priorities already set, is the reduction in the moneys available to other provinces under the Canada investment division, and the option suggested is another one which may well have to be examined in the months ahead.

MR PAHL: Thank you.

MR ZAOZIRNY: Mr. Chairman, separating for a moment the investments in the Alberta investment division, which I think many would argue ought to be at a preferred rate, if you will, in terms of the benefits to Albertans that flow from them, and looking at the other investments of the fund, has the government given consideration to or made any decision to move away from fixed-rate investments? You've mentioned that one of the things happening is that we're looking at equity investment to try to increase the yield to the fund. On the debt side of things though, bearing in mind that it seems a number of financial institutions are now shifting right away from fixed-rate financing because of the volatility we're seeing in interest rates, has the government made any decision about staying away, at least in the short term, until we see some stability hopefully in the market place, of shifting away from fixed-rate investments?

MR HYNDMAN: It's very difficult to devise an ongoing short- and medium-term investment plan these days. However, one of the basic problems, faced with that approach, would be: then what happens to requests by the municipalities to borrow more money through AMFC if the money is not there, or for the Housing Corporation to borrow more money, or for the Alberta Opportunity Company or AGT? In other words, those are fixed-income investments in Alberta

to strengthen and diversify. If the moneys don't go there and, say, went into the commercial investment division for a larger equity approach than other corporations -- either there would be no moneys to lend and so there'd be fewer homes built, less money available to Alberta municipalities. But the other problem in addition is, I guess, the volatility extends not only into the area of fixed-income securities but also in the area of the stock market, as we've seen, for example, just in today or during the reporting period here where the Toronto Stock Exchange index dropped 14 per cent over a matter of days. So there's no magic or guaranteed return in either area of investment. Certainly though we're seeking, in the volatility of today's market, to get a better balance between equities and fixed-income securities.

MR ZAOZIRNY: Perhaps I could clarify my question. Again, I wasn't taking issue with the investments to Alberta Home Mortgage Corporation at all. I want to separate that out and look at the other dollars available for investment. Looking at those dollars specifically, presumably some decisions are made in terms of what percentage of the fund is available for investment, or it's desirable to invest on the debt side, a non-Alberta investment. Looking at those dollars alone, what's the government's position in terms of lending either on a fixed-interest rate basis or on a floating rate basis? Because, as I say, it appears that some financial institutions now simply will not offer their debt money on a fixed-rate basis in the foreseeable future. Are we addressing that specific question?

MR HYNDMAN: Yes. We want to get more flexibility, but the basic problem is that the moneys aren't there available for investment the way they were with the heritage fund. In other words, the demands and requests for fixed-income securities from, for example, the Alberta Crown corporations are getting to the stage where they're going to exceed the moneys available. However, with respect to all the investments, whether they're fixed income or otherwise, shorter terms, more flexibility is something which the government and other investors are following.

MR R CLARK: Mr. Minister, in the four realities that were outlined initially, I may have made a mistake, but I jotted down as the third reality that new funds exceeded requests for the first time. Did I mix that up?

MR HYNDMAN: No. The new funds available were less than the requests for investment. In other words, in past years all the investment divisions were able to be satisfied from the moneys coming in. But in this report for this year, Section 9 had to be resorted to for the first time to make up the difference. With the rate of increase of course the various [inaudible].

MR R SPEAKER: Mr. Chairman, on a different subject, this relates to a comment of the minister at an earlier date and is with regard to the 30 per cent that goes into the fund. I wonder if any consideration is being given to that percentage being changed.

MR HYNDMAN: Every year when the Bill is presented to the Legislature in the fall, a decision has to be made as to that percentage. I have indicated that that is one of the variables that could be considered. So far we haven't seen the overriding arguments that would suggest a change in the figure, but with the total uncertainty of what's happening every week and every month, it's

still possible there might be a change. However, at this date it would probably be recommended at the same percentage this fall.

MR R SPEAKER: Mr. Chairman, are there any indicators or variables that would influence that significantly that the minister could elaborate on in a specific manner?

MR HYNDMAN: I suppose the extent to which there will be greater and an ever-increasing number of demands by, for example, the Alberta Crown corporations for dollars would be one, and generally the economic position of the province. If, as, and when there is a solution or otherwise in respect of the energy matters, that will or will not result in figures and incomes which could relate to that 30 per cent figure. So it has to be left open on those bases.

MR R SPEAKER: Supplementary, Mr. Chairman. One of the very important factors at this point in time in continuing or not continuing the program of 30 per cent, is the energy negotiations and the settlement with the federal government. That's one.

MR HYNDMAN: One of the factors.

MR MUSGREAVE: Mr. Chairman, I have a couple of questions. First of all, Mr. Minister, I have a comment through the Chair, and that is, you mentioned that the Crown corporations in the province are requesting more money for their ongoing mandates. I have a concern I'd like to leave with you, and that is that while I appreciate, for example, the need of the Alberta Housing Corporation for more money, I do think it's wise that we look at the experience of Canada Mortgage Corporation, which I understand has something like 70,000 units sitting vacant in Ontario because they encouraged people to get into housing under the assisted home ownership program. Then when the mortgages came up for renewal five years later, they found that the mortgages were of greater value than the homes, and people have abandoned them. I'm sure the minister is aware of this, and I would hope there would be some concern and thought of this. The fact that it's an Alberta market and an Alberta demand, doesn't necessarily make it the best investment for the fund. That's one concern I'd like to leave with the minister.

The other concern I have is that as a result of the national energy program where we have the federal government buying out foreign companies at twice their market value, and we know that the federal MPs just granted themselves a huge salary increase, and also that they have given blank cheques, in effect, to union demands, I think a fair comment would be that they're not very good money managers. What worries me is this: you have approximately \$300 million of government of Canada direct and guaranteed bonds. And it's not just today's information that the bond market is disastrous; for the last several months the bond market has been in a terrible situation. I'm wondering if you can assure us that the government is considering moving away from the traditional investment markets in Canada because the smart money in Canada is moving into the United States. Surely we've got to protect our fund, and if it means moving in that direction, I'd like to know what your reaction is going to be.

You note that the Alberta Energy Company stocks are valued at cost, the investment held by the heritage fund is valued at cost, yet other marketable securities are valued at amortized cost or market value. My question to the minister is: why are they not treated the same?

MR HYNDMAN: On the last question first, I believe that relates to what are referred to in the accounting profession as generally accepted accounting practices, which require a conservative listing of the value of, in this case, the equity of the Alberta Energy Company's shares. That requires that they be listed in an annual report in order to not mislead those who are readers, at the lowest of either the cost or the market value. The market value clearly is significantly higher than what's listed in the annual report, but accounting practices require they be listed at cost. If the hon. member is suggesting that it's perhaps not clear of the difference, that may well be the case, and I'll look at that for clearing up and perhaps making it more obvious in the annual reports in future years.

With regard to investing in government of Canada bonds, either direct or guaranteed, I guess it's a judgment call as to the balance and extent to which there are investments by, in this case, a savings fund in the federal government of the country. We have indicated concerns in the past as to the extent to which they've been managing the economy, but hopefully, with some degree of hope, that would improve. We have to remember that loans to government of course are backed by the best security one can have; that is, by the taxpayers of the existing day and of future days. So therefore the security is very, very good.

MR D ANDERSON: Mr. Chairman, my question I guess relates to some extent to the original question asked regarding income received from investments made by the fund. I should place out there my personal belief that income resulting from investment should be not the first but rather the third goal of the fund, that in fact we first have to ensure that investments reflect the goals and directions that Albertans want today and in the future; second, that that investment does not interrupt the market place in such a way as it cannot try to meet those goals for Albertans; and only then the third, that the income is the best we can possibly have. In that regard -- and my question relates to the commercial investment division which for the first time will begin investing in equities -- I'd like to know from you, Mr. Minister, what parameters have been established to ensure that, first of all, those equity investments don't disturb the market place in Alberta in any significant fashion. Second, what parameters have been established to ensure that the investments don't take place in companies which might conflict with the overall goals of Albertans, in particular their government?

MR HYNDMAN: I suppose the best answer to that would be to restate the parameters of the investments that will take place very shortly under the commercial investment division. In the document which I tabled in the Assembly in the fall of 1980, I believe it was, we indicated that during the 6- to 18-month start-up phase essentially four internal guidelines would be followed. Firstly, the investments wouldn't exceed 5 per cent of the total issued or outstanding voting shares of any single corporation on a general basis. Second, and this relates to the control question raised by the hon. member, the investments will be passive in the sense that they will be purchases of stocks which will then be held for the medium and long term, and normally the government would not be exercising its voting rights unless there was an indication that the investment was in jeopardy. Thirdly, there'd be generally no investment in the securities of a single company that would exceed 10 per cent of the total commercial investment division, so you'd have a diversity of stocks and bonds of strong companies within that. And, lastly, the guidelines governing selection would essentially be those of any measured

investor, and it would include a review of the total annual revenues, earnings record, dividend record, but essentially investments that will maximize the rate of return. So it's important to remember that the commercial investment division, as the Legislature has said, is for the sole purpose of maximizing the fund's rate of return. All the other divisions, the vast majority, have other goals, such as strengthening and diversifying the province.

MR D ANDERSON: Mr. Minister, though you're saying that, and certainly the declared goal passed by the Legislature is maximizing return on investment, that's assuming, though, that the investments possible are only those which will not conflict with the goals of our government and which won't interrupt the market place in any way. Would that be correct?

MR HYNDMAN: It would be impractical to have that kind of caveat. In other words, the vast majority of the heritage fund has been set up to strengthen and diversify the province, to have the capital projects division. But the parameter and the guideline which I'm obliged to follow here is that the goal for the province of Alberta is to maximize the return. So that will be the objective, and essentially the sole objective, of the commercial investment division. Of course we would only invest in companies that behave and follow the laws of the country. But that is the only basis on which one can maximize the return.

MR D ANDERSON: Yes, I appreciate that, and that's certainly the declared goal. But can we be assured that you, as the minister responsible for those particular investments, would be reviewing such investments to ensure that you don't have those conflicts between the goals of government and the goals of maximizing profit, and as well as that some sort of analysis is done before an investment is made so that you don't favor one company over another in the market place, and therefore distort that development?

MR HYNDMAN: No. The kind of review you suggest would take place with regard to all the other parts of the heritage fund, but it would not be within the parameters of the investments under the commercial investment division because that would mean that you wouldn't maximize the return. You would have a lower rate of return, a lower yield. As the Legislature has indicated, that's one of the areas in which it is important that the heritage fund get involved.

MR PAHL: Mr. Chairman, my supplementary will . . . I'll avoid the editorial comment I had with respect to my colleague's concerns. But I would ask whether it is not a fact that the commercial investment division was restricting itself to Canadian securities. You didn't mention that as a criterion, but I believe it is. I would question that criterion as opposed to the profit maximization potential because as our Canadian economy, notwithstanding the long run strength of the taxpayer, suffers its ups and downs, it considerably lessens investment opportunities, whereas if the profit maximizing were taken to its logical limit, as my colleague from Calgary McKnight indicated, you'd probably be pursuing blue chip investments in the United States markets where they seem to be available at bargain prices with long-term prospects of good return. So I wonder whether the investment division, if that criterion is still in place, has looked at how that limits the opportunity to maximize profit by commercial investment.

MR HYNDMAN: There's no question that if there were a limitation of share investment only in Canada that would limit the maximization of returns that would keep yields lower than they might otherwise be. As the hon. member pointed out, the statute as amended in no way restricts equity investments of the commercial investment division to Canada. What we indicated last year was that as a policy for the start-up phase of the commercial investment division, we would be confining the investments to Canada, within the four parameters I've indicated. However, in order to carry out the mandate of the commercial investment division, it will be necessary down the road to give consideration to diversifying outside Canada to achieve the goal of maximizing the returns of the fund because the Canadian stock market of course is essentially concentrated on resource-based industries and manufacturing entities which reflect resource base. There are a large number of other areas of investment in equities which can bring larger returns and which are not found in Canada at all, and if the objective is also to balance the portfolio so that, if the Canadian economy is somewhat soft and other economies are stronger, to balance the down side of one with strengths of the other. So in the long run, thoughtful investors of funds of this kind would be investing offshore. But we wouldn't be doing that in the immediate months ahead. I'd welcome the advice of the committee on that point generally.

MR NOTLEY: Mr. Chairman, I'd like to deal with a specific investment, following along this business of moving from fixed-rate debentures to equity. With respect to the convertible debentures we have -- the Cities Services debenture and the Gulf debenture, one at 8.375 and the other at 8.125 per cent interest -- last year in the overall report that we have, our 8 per cent investment in Syncrude returned us \$27 million, which is actually quite a good return. The convertible debentures returned \$19.5 million. My understanding is -- and again just checking the report -- that if we converted these debentures, we would move from 8 per cent to 17 per cent equity in the Syncrude project, which would have given us an additional \$31 million on the basis of last year. Mr. Minister, on the basis of that \$31 million which we could have obtained had we converted the debentures, and yet we obtained \$19.5 million, there's a difference of about \$11 million. On what basis did we choose not to convert?

MR HYNDMAN: The figures of the hon. member are not correct. In fact, if we had converted either or both of those convertible debentures during the year in question, there would have been a significant loss. I believe it's somewhere in the range of \$6 million to \$10 million. In other words, it paid, in terms of the best return, to retain the investments as debt investments at that time. I can send the hon. member the detailed arithmetic, but that's what the accounting will show, that in fact it would have been a very unwise move to have converted during the year 1980-81.

The time will be coming, though, in the months ahead when increasingly the option of conversion is one which will have to be looked at seriously. The question of conversion depends of course on the unpredictable future as to the extent to which there will be production in volumes and what the prices of that production are at the Syncrude plant, and those of course are somewhat uncertain. However, I think the best thing would be for me to provide to the hon. member a copy of a letter I wrote to the editor of the *The Calgary Herald* which sets forth the detailed arithmetic which would indicate that it certainly would not have been a wise investment decision to have made the conversion during 1980-81.

MR NOTLEY: Mr. Chairman, I'd welcome the arithmetic because the figures I have here come from the annual report. But I would certainly welcome the minister's arithmetic.

With respect to the question of the options, one option would be converting into equity and increasing our ownership. Another option would be increasing the ownership to the 17 per cent and then putting that on the market, as the Alberta Energy Company did several years ago, with a very substantial increase, I might say, to the Alberta Energy Company. Bearing in mind the point you've made, Mr. Minister, which is probably correct, that the shares in the Alberta Energy Company at this stage are very conservatively estimated and would bring more in the market place, should we convert our 9 per cent, would we not in fact do much better by putting it on the market and then simply putting that money into even short-term securities at today's interest rate?

MR HYNDMAN: That is certainly one of the options available. In other words, what we're looking at with respect to any of these conversions is, what is the value of the option? As was mentioned, the Alberta Energy Company was able to get a significantly high evaluation as to what their option was worth. The options available then are not solely of simply converting into a larger equity position in Syncrude. I think that would be the one which I would lean to at the moment, but there are other options which are available if you try to work out a valuation of what that option of conversion is worth. And there are any number of other ways or opportunities of investment. So those would all be reviewed, and we'll be in the process of that shortly.

MR NOTLEY: Mr. Minister, with respect to the 8.375 and 8.125 interest, as I look over the last three years and particularly the first six months of 1981, there is a considerable difference between that interest rate and what was the going market rate. The figures I have, and we can check arithmetic at some other point, I suppose: a little under 3 million in 1978; about 10.7 in 1979; 18.9 in 1980; and a significant amount, about \$15 million, in 1981. My point to the minister: that strikes me as being fairly significant shielding, and I would ask the minister, bearing in mind that you've already indicated that one of the options might be conversion, when can we expect some sort of announcement?

MR HYNDMAN: The announcement would be made when the time would be most propitious to make the conversion or to make such other ancillary arrangement as is best for the investment approach. In other words, when do the lines cross in the sense of making it very clear that the investment is best carried forward in order to maximize returns by either converting or working out some allied arrangement? As I indicated, I think we're toward that time. It was not during the last fiscal year; it may well be during this fiscal year.

MR NOTLEY: Mr. Chairman, the lines surely crossed last year. We have the four statements of the heritage trust fund quarterly report. The first three months there was a loss, but in every other quarterly statement there was a profit, for a cumulative profit of \$27 million. Are we not in a position now where in fact the lines have crossed?

MR HYNDMAN: No. Certainly we weren't during the 1980-81 annual report, and no announcement has been made to date. So I would agree that up to now it has not been wise to make that investment decision either, but we would be moving toward that during the latter half of this year. However, I certainly will

provide the definitive arithmetic to the hon. member and show him that it would have been a loss to have made that decision during the last fiscal year or up to now.

MR NOTLEY: Mr. Chairman, again we can just go on the basis of the quarterly statements.

There seems to be a slight change, Mr. Minister, in the reporting between the four quarterly reports last year and the first quarterly report this year. Schedule three, Mr. Minister. In all four quarterly reports we had net profit for period, which I think was useful because it would give members looking over, and the public, an indication of where we stood. That seems to have disappeared and we have instead participation in the Syncrude project, investments at cost less amortization. Would the minister explain the difference in the change?

MR HYNDMAN: I'll have to take that under advisement, Mr. Chairman. I have the quarterly reports and the information with regard to the fiscal year under review, but I don't for the last quarter. So I'll review the *Hansard* of the hon. member's remarks, provide him with an explanation, and he can bring the matter up further if he's not satisfied with it.

MR NOTLEY: Perhaps, Mr. Minister, with respect to the arithmetic of the two Syncrude debentures, would you make that available to all members of the committee? I think we would like to obviously assess that as we review our recommendations.

MR HYNDMAN: I think to clear that up I'd certainly be prepared to do that.

MR PAHL: Mr. Chairman, with respect to the Syncrude option issue, I would have thought that having the option to have the option, if you will, was worth something. As I understand it, you can only exercise an option once, but we had the opportunity to hold that until March 1, 1984, and within that there should be some implicit value in terms of which direction you wish to go as a strategy and, I would suggest, our participation in the oil sands. If there's any comment that you may wish to provide on that when you provide the arithmetic calculation, I would be most appreciative of that information as well.

MR R SPEAKER: Mr. Chairman, on a subject a little different with regard to the general direction of the Heritage Savings Trust Fund, the minister mentioned a couple of things this morning: one, in terms of the demand on Section 9 that there's a greater demand so that means there's less for Section 9 and more has to go into other areas such as housing, if I interpreted the remarks correctly. As well, the minister made a statement on July 23, 1981 to *The Globe and Mail* and indicated that the province -- and I'll quote this out of the article -- will substantially increase heritage fund investments in housing and capital projects. An explosion in the demand for housing within Alberta means that AHMC and AHC will be getting a larger share of the fund's new revenues.

My two questions to the minister: one, does the minister still support that statement, and is that the pressure that's on at the present time; and, secondly, in terms of the fund and the way the capital projects are putting pressure on the fund, is there any thought of moving more, let's say, away

from capital projects to possibly research projects that may have a different impact?

MR HYNDMAN: Firstly, I haven't seen the article to which the member refers, but if that statement was made, it was in the past tense, in the sense that as the report indicates, the amounts of money which have been absorbed by the Home Mortgage Corporation, the Housing Corporation, the Municipal Finance Corporation, AGT, and the other two Crown corporations over the last 18 months have gone up at a very, very high rate. So I was indicating that that has resulted in a very, very high absorption of the moneys available from the heritage fund to the Alberta investment division, to the Alberta Crown corporations.

On the capital projects division comment: of course that division, as the pie chart shows, is a relatively small part of the heritage fund. I think it's relatively roughly \$1 billion, roughly 11 per cent, I believe. So it is a small part of the heritage fund and, because it does not have a return, it's a deemed asset. It does not relate to the overall investment performance.

I'm not sure what the hon. member refers to by research. There is of course very significant research funded by the heritage fund in agriculture and in AOSTRA. So I think there will always be a heavy research aspect of the fund, as there is in cancer and heart disease as well, and in the \$300 million medical research foundation. So there'll always be a significant amount of research, but there's no plan at the moment to make advance decisions on what the various amounts would be because, again, we are facing the problem of a lowered rate of increase of the fund and higher demands for the money from the fund.

MR R SPEAKER: Mr. Chairman, in terms of the relationship of the fund to the general budget of the province, has the minister done any types of studies with regard to the impact on the general revenue expenditures of the province in terms of the next three years, the next five years? I think we've raised this at earlier meetings. I wonder if the minister has considered that further. The impact that, say, the capital projects have on our general revenue budgeting certainly must have some effect on what we do in terms of the capital projects areas.

MR HYNDMAN: Yes. I think to the extent, for example, to which \$100 million of extra moneys is loaned to the Alberta Home Mortgage Corporation, those moneys will be loaned at the market rate. However, borrowers can borrow at an effective rate subsidized by the general budget of down to 9 per cent or less. Therefore if those moneys, capital dollars, are made available at a market rate, it means that there will be a corresponding debit against the General Revenue Fund of the Department of Housing and Public Works to cover whatever that subsidy mix happens to be, and that's hard to predict. But that is what has to be borne in mind as a reflection on the General Revenue Fund of a decision made in the Heritage Savings Trust Fund, and is borne in mind when the budgets of next spring, for example, are put together and whenever capital projects are either initiated or extended.

MR R SPEAKER: Mr. Chairman, are any cost/benefit studies done in that sense? Are any projections made in the department continuously? Is there deliberate effort to look at the projects, or do you just annually look at it and say, well, I think we can do it this year and next year can look after itself?

MR HYNDMAN: No. There are the normal short- and medium-term projections which are made with respect to every one of 3,000 or 4,000 government programs. Whenever a program of any kind is initiated or expanded, the implications of what that will mean on the operating account have to be looked at, and we try to estimate them to the best extent we can. That's the same with heritage fund projects.

MR R SPEAKER: Mr. Chairman, that's specifically with regard to the capital projects. Are those types of projections made, and are they available to the committee?

MR HYNDMAN: No. They're not available to the committee because they're made in the same way projections are made with regard to the general budgeting. In other words, the information is made available and up for debate and discussion as thoroughly as possible and as members would like to carry forward during the fall estimates of the Heritage Savings Trust Fund. So that's the time at which information should be sought with regard to operating expenses and projections in the medium and short term.

MR R CLARK: Mr. Chairman, just two areas. First of all, the information was made available this morning about senior investment staff. I appreciate the information. In reading it through, I assume all the positions are filled, although it doesn't say so in the information. Is that accurate?

MR HYNDMAN: Yes, they are filled. There is now a total of about 25 positions, including management and other positions. I believe we have filled all but five of those. All the ones on the list are filled.

MR R CLARK: But all the positions that have been approved in the broad area of financial management of the Heritage Savings Trust Fund are filled?

MR HYNDMAN: Yes, all the ones on the tabling this morning. They require of course an attempt at matching up the second part of the document with the front, but they're all filled with people with the qualifications on the second part. So the management positions are all filled now.

MR R CLARK: Let me put it this way: are there positions in the Treasury Department where people have responsibility for the heritage fund where there are vacancies?

MR HYNDMAN: There may be some in positions which are administrative, not listed in the document filed this morning. But in respect of management, which is all listed in the document filed this morning, those are all filled.

MR R CLARK: Mr. Chairman, what has been the experience over the last year in the department's ability to retain management people especially? The minister will recall that, I think, last year this was one of the areas that we raised during the discussion, the department's ability to hold management people.

MR HYNDMAN: I think it's a continuing problem, not only in the Alberta government but also in the entire private sector of the country, because these people are in demand. There's a shortage of them, and they're very mobile. But the problem has become much less severe since over the past eight or 12

months we've been able to fill a significantly larger proportion and have fewer vacancies than in the previous year.

MR R CLARK: What rate of turnover would we be looking at in these management positions in the last year?

MR HYNDMAN: I'd have to find out that fact. I don't know, but I would think it has reduced from last year. I'll attempt to get the information and provide it to the hon. member.

MR R CLARK: I'd appreciate that, Mr. Minister, but perhaps -- have we had a 50 per cent turnover, or has it been more like the . . . ?

MR HYNDMAN: No. My information is that it would be less than 50 per cent. I think it would be within the range of the average turnover perhaps of the management of the government, but no higher.

MR R CLARK: [Inaudible]. Could the minister give to members of the committee an updating as to the success and also the type of advice the province has received from the two consulting firms the province took on? If my memory is accurate, one was a Montreal-based firm; the other firm was from London. They were looking at making recommendations for investment of the fund.

MR HYNDMAN: Yes. They have been on deck and giving advice in a very broad and, as well, detailed way over the course of the last eight months or more. There have been in-depth discussions and review sessions at all levels, from the ministerial level through the departmental investment committee, and we've found their advice to be very, very valuable; in other words, preparing for the commercial investment division investments which are forthcoming, and in securing advice on the heritage fund as a general investment and savings vehicle. We have found the advice very, very important and very useful. Of course under the administrative expenses there are expenses which for the accounting year 1980-81 reflect that top-flight, professional advice (a) from London through Morgan Grenfell and (b) from Montreal and Toronto through Montreal Investment Management.

MR R CLARK: Mr. Chairman, if we could perhaps be a bit more specific, might I put it this way then. What three -- I picked three rather arbitrarily -- changes have resulted over the past several months as a result of the advice we've received from this group? I know they aren't the only people one gets advice from, but what I'm trying to get some handle on is: are we getting more independent advice than we're already getting from people within the department? And I think the initial concept was that it would be on a far broader basis -- not to be critical of people in the department -- from the standpoint of having a far wider vision as to what's happening investment-wise around the world.

MR HYNDMAN: Yes. They have, in effect, complemented the high-quality investment abilities of the department by adding new dimensions: adding the dimension, firstly, of the world approach to investment of the western world of New York, London, Paris, Switzerland, Tokyo, and also offering advice in a more North American dimension through the other investment group from Montreal. So they have added new dimensions to the knowledge we had at the

beginning and have therefore added to the quality of the investment decisions, assisted us in maximizing the returns, and helped to point the way ahead.

MR SINDLINGER: Mr. Hyndman, I believe that when it was announced that these consultants from Montreal and London would be retained, it was also indicated that a Provincial Treasurer's ministerial advisory committee on the Alberta Heritage Savings Trust Fund would be formed. Could you perhaps elaborate on the relationship, the functioning of that entity, to those consultants and your department?

MR HYNDMAN: There's no direct relationship between the latter group and the investment advisors. The advisory group has been an informal one in the sense that it has been the group -- and the membership is a roving and changing one, I might add -- which has within the province solely, essentially Edmonton and Calgary, been asked questions by and provided information advice to me and to the deputy minister and the investment committee on the climate within the province of Alberta for investment. That information has been rolled into the advice that's been received from the other two Montreal and London advisors, but they're essentially two separate groups. The advisory group is an informal one, and is essentially a sounding board.

MR SINDLINGER: Mr. Hyndman, could you indicate how often this advisory committee has met with you, your department, or the other consultants; how many members are on it; and who these members are?

MR HYNDMAN: The membership is a roving one, and I don't intend to appoint specific or fixed people from the province to it because I think in the developing financial strength of the province, advice is available from large numbers of people in the investment community and in the financial community right across the province. We met two or three times over the last number of months, and it's been an informal exchange of views. It's not a kind of group where minutes are kept. Essentially it involves keeping in contact with the realities of the private sector in the province, finding out what the concerns and suggestions for improvement to heritage fund and other policies are, and proceeding in that fashion. Some of the advice is accepted; some of it's rejected; some of it's accepted in part.

MR SINDLINGER: Mr. Hyndman, could you, though, indicate from time to time how many people there are on this advisory committee and who they are?

MR HYNDMAN: The membership varies. As I say, it's not a committee where there are members, and the people essentially are Albertans who have something to offer in the way of advice and expertise. So I think until there's perhaps a larger group from which we could indicate that there might be a semipermanent membership available -- and that hasn't yet been chosen; I think that would probably occur in the next six months or so -- then we'll be in a position to advise.

MR SINDLINGER: Mr. Hyndman, the announcement of the Provincial Treasurer's ministerial advisory committee on the Alberta Heritage Savings Trust Fund came in a formal news release October 24, implying that there was some degree or element of permanency to the entity. I take it now that it's not that much of a formal group at all.

MR HYNDMAN: That may have been the implication which the hon. member took from it. I did not see it that way. And no, I would not see it as an informal group. It has been deliberately proceeding in a measured and slow pace on the basis partly of the vast uncertainty brought about by the Ottawa energy proposals and the other decisions we've had to make. So its membership and duties are still somewhat imprecise. They'll be, though, coming into more focus in the months ahead.

MR SINDLINGER: As it comes more into focus in the months ahead, will you reveal who the members are at that time?

MR HYNDMAN: That's possible. We'll see whether the membership is a fixed one or maybe it's a roving, rotating membership.

MR SINDLINGER: Will you be entertaining applications for membership to this advisory committee?

MR HYNDMAN: We always do that. [Inaudible] wouldn't want to duplicate those things.

MR NOTLEY: Mr. Chairman, I wonder if we could deal with page 22 of the report, and that's the change in the amount to the Alberta Opportunity Company from \$91 million to \$106 million, an increase of about \$15.8 million. With the Alberta Opportunity Company being perhaps the principal vehicle for small business diversification, in terms of heritage trust fund investments anyway -- there are other ones; there's a small amount to agricultural processing through the ADC, \$8.3 million, but the principal vehicle is the Alberta Opportunity Company -- on what basis did the investment committee conclude that an increase of 15.8 million was adequate, bearing in mind that one of the objectives of the fund is diversification, bearing in mind the rather useful role of the Alberta Opportunity Company? Was this recommendation made as a result of the investment advisors in the minister's department? Was it an investment decision made by the investment committee itself in a general sense? Was it an investment made as a consequence of a specific recommendation from the Alberta Opportunity Company?

MR HYNDMAN: It was basically on a recommendation from the Minister of Tourism and Small Business, who is responsible for the Alberta Opportunity Company. On the basis of his advice and a discussion as to what would be the appropriate amount which would reflect the demand and needs of the corporation and its views, that figure was arrived at. I imagine that Mr. Adair, when he appears before the committee, as I gather he will probably be doing, could elaborate on that process. But that was the recommendation of the minister, Mr. Adair.

MR NOTLEY: I would ask you a little further on that matter, Mr. Minister, because our total increase in the size of the fund -- and you raise the point that this is the first year where there were more requests than there was money. We're looking at a little over \$2 billion dollars, \$600 million net funds provided by operations and the \$1.4 billion in the resource transfer. That 15.8 million represents about 0.7 per cent of the total increase in the fund and would in fact represent a smaller percentage of the transfers this year than the Alberta Opportunity Company does in total of the fund. Again bearing in mind that this is the vehicle for small business diversification,

that seems to me to be a very small amount. Combined with the fact that of the Agricultural Development Corporation only \$8.3 million is assigned there to agribusiness, surely the prospects have to be much greater than a cumulative total of 15.8 and 8.3.

MR HYNDMAN: Again I think that probably in respect of the Alberta Opportunity Company, Mr. Adair can provide more information, but my understanding is that certainly the needs of the corporations, as reasonably set forward, were met with the moneys advanced to them. So there's no suggestion of businesses or farmers being turned away on the basis of a lack of funds available.

MR NOTLEY: We're now talking about -- I believe it says \$26 million for next year. In this time of high interest rates and the almost universal concern of small business men in particular about the high interest rates, is the investment committee going to seriously look at a somewhat larger increase than that? Has that been formally evaluated by the investment committee?

MR HYNDMAN: It's evaluated in the sense of looking at the demands which the two corporations have had over the past year and which they see coming in the future year. Therefore I think it could be fairly said that the moneys provided reflected the needs as the corporation saw them with respect to those farmers and small business men who would be coming for loans. Therefore there certainly was money made available for the demand which was expected. In other words, it doesn't make sense to make moneys available when they're not going to be taken up.

MR NOTLEY: On the other hand, with today's interest rates, it's not an unreasonable expectation that there would be quite a quickening of interest, especially in the Alberta Opportunity Company.

MR HYNDMAN: That's possible and I think, just as happens in the Home Mortgage Corporation, the minister -- in that case Mr. Chambers, in this case Mr. Adair -- is always in a position to make a recommendation to the investment committee for further funding of any given entity. Of course it has to go through the Legislature, and there has to be an approval of the estimate, but that is available.

MR NOTLEY: Has there been any consideration by the investment committee, in view of the very high interest rates and the problem that's creating for the smaller business sector, of perhaps changing the composition -- and recommending that to the Legislature -- of the Alberta Opportunity Company from a lender of the last resort to some modification of that?

MR HYNDMAN: You'll have to ask Mr. Adair about that. Again, that's not a matter which relates directly to the heritage fund. The heritage fund simply advances money to the Opportunity Company. But policies with regard to loaning and how the Alberta Opportunity Company works properly would be in his purview, and I'm sure he'd be happy to answer them.

MR NOTLEY: Has there been any discussion by the investment committee, however?

MR HYNDMAN: Discussions by the investment committee, by the cabinet through the minister, are ongoing throughout the year of the mandates of the various corporations.

MR NOTLEY: Has that discussion specifically related to perhaps substantial changes in the complexion of the Alberta Opportunity Company?

MR HYNDMAN: I think the company, being of course one of the most successful vehicles of the last 10 years of diversification, has been operating soundly, and the various announcements that have been made over the years to reflect its being updated have meant that it's been realistic and reflected the times. But of course the minister may make recommendations to the investment committee from time to time as well. You can ask him about any further recommendations in mind.

MR PAHL: Perhaps I could supplement the question or ask where -- I'm on the same side as the hon. Member for Spirit River-Fairview on this one. I will welcome the opportunity to share my views with the minister responsible for the Alberta Opportunity Company. I take it the Provincial Treasurer and the investment committee will certainly consider seriously any recommendations we may have after talking to the minister responsible for enhancing that very important vehicle and making it more available in this time. So I think I understand the process and would hope that we will at least be heard if that is the direction of the committee's recommendations after talking to the minister responsible.

MR HYNDMAN: I will alert the minister that representations will be made vigorously by the committee.

MR D ANDERSON: I guess it's been about two years now since the corporate debt policy was announced. I wonder if you could give us an update, Mr. Minister, on the applications to that and if that's seen in the future as a possible positive vehicle for investment.

MR HYNDMAN: Yes. Certainly the initial year and a half of the new corporate debt policy was less active than we had thought and that was because we moved into a market situation at which time there was very little corporate debenture borrowing. However, as the annual report lists, there are the investments which have been made, two in number, and so far those are the only two made to date. There were a number of other possibilities examined. However, in terms of security and yield, those were the two that were decided on, and that's why there has been significantly less activity than we had thought. That may well increase in the year ahead.

MR D ANDERSON: Is there any thought of changing the parameters as a result of the applications that have been made, or have we simply not had the opportunity to invest in that area with the parameters that are there? Do you feel that those are sufficient for the future in terms of the limitations and the concept?

MR HYNDMAN: We're always looking for realistic and constructive suggestions. I think the parameter of requiring at least one-third of the moneys on the corporate debt issue to be put up by the private sector is a good one because that means the independent private sector has looked over this investment and has decided it's worthy of being purchased and is a sort of guarantee of security for the province.

The policy of course involves loans not only to entities and corporations within the province but can involve loans made or debentures purchased from

companies which are outside the province but which contemplate operations in the province. In other words, perhaps a company in central Canada which contemplates coming to Alberta and building a factory, even though it didn't have a presence here, could be one of those considered for the corporate debt program. But I think after two years now it's open for suggestions as to ways in which it might be modified or changed.

MR NOTLEY: Mr. Chairman, I have a supplementary question. Just taking that for a moment and looking at this business of whether we should go from debt instruments to more equity, looking at the Calgary Power loan here of \$20 million or thereabouts at an interest rate of 13.75, why would we not consider an equity investment of that basis? That's certainly such a small equity basis it's not going to disrupt; it's not going to be a case of creeping nationalization of Calgary Power. The minister and I totally disagree on what we should be doing ultimately but certainly the minister would agree that \$20 million would represent perhaps 2 or 3 per cent of the equity position of Calgary Power. That being the case, with a guaranteed rate of return of 15 per cent, why would we not invest in equity instead of a debenture at 13.75? Because this is a regulated utility; we set the rates. It's 15 per cent, and has been for years or thereabouts. Why would it not be a better investment for us to invest a small portion of equity there?

MR HYNDMAN: Of course that option wasn't open at the time in the sense that only recently did the investment committee and the government have the jurisdiction from the Legislature to move into equities. Once having received that authority of course, we had to set up the organization and the investment advisors in order to do it properly. But there's nothing to preclude in the future an investment through the commercial investment division which might involve one or more corporations in which there's also a corporate debt investment as well. So there could be either an equity approach only, a corporate debt approach only, or perhaps even both. In future it would be possible to have that flexibility, as the member suggested. In the past it wasn't possible because the Act didn't allow it.

MR NOTLEY: And that was true when the investment was made?

MR HYNDMAN: At that time, yes. We didn't have the resources or the machinery set up to make an equity investment, and now we do have. I think this is a sound investment and a good one. Obviously at the market rate of interest it's one which could not have been bettered anywhere in Canada, but in future that option will always present itself, as to whether to do an equity and a debt investment situation, bearing in mind you don't want too much of any one company with regard to any of the assets.

MR NOTLEY: Mr. Chairman, was that a formal decision made by the entire investment committee, or was it made in the normal course of the investments of the trust fund?

MR HYNDMAN: It was made within the parameters of the Act. I believe the investment committee did make the decision to invest in Calgary Power and Bralorne and in Loram under the energy division.

MR SINDLINGER: Mr. Hyndman, one of the instruments you've referred to is Bralorne Resources, and over the last two years the question of decision-

making and criteria for decision-making has been brought up by this committee. I wonder if perhaps you might elaborate on the decision-making process regarding the investment in Bralorne Resources, with specific reference as to whether or not members of the investment department, as outlined in your organization chart, were approached by people from Bralorne. Or were members of the cabinet approached by Bralorne and then the subsequent investment to invest in Bralorne passed from the cabinet to the people on your organization chart?

MR HYNDMAN: The usual approach is -- and I believe this was a private offering -- that the people in the department, and they would review perhaps 20, 30, 40 of these a year, would be informed, as happens on a daily basis in the investment community, of the fact that there were going to be debentures of Bralorne Resources available. This of course is only a small proportion of the total debentures involved. They were purchased by others across Alberta and Canada. Then we would be asked if we were interested. On the basis of an in-depth assessment of the extent to which it was a good investment, a good return, the security available, a recommendation would then be made to me, then from me to the investment committee, and the decision would be taken or not taken.

MR SINDLINGER: There were then no individuals from a private placement firm or Bralorne that approached the cabinet or members of the cabinet?

MR HYNDMAN: Not to my knowledge. But of course from time to time people do approach the Provincial Treasurer and then immediately, if there is a potential investment, say, of this kind, that would be sent down to the departmental investment committee for the objective assessment as to whether the investment is there.

MR SINDLINGER: Let me ask, since we're on Bralorne, could you describe the instrument a little bit more fully to us? You classify it as a debenture but, as I understand it, a debenture is somewhere half way between a bond and a stock or piece of equity. Are there any convertibility features to the debenture?

MR HYNDMAN: Not to my knowledge, no. I think in this case it's a traditional debenture in the sense that it's simply a debt instrument. It's a promise to pay. It does not give the government any say in the operations of the company whatever. The security is the company itself, and it is a pure debtor and creditor relationship and not one which relates to any degree of control or equity. Therefore it's like a loan.

MR SINDLINGER: On this subject then, in regard to the Luscar debentures, is there any convertibility feature to those instruments?

MR HYNDMAN: I don't believe there is on that one. That's under the energy investment division. I believe it's essentially a traditional type of debenture.

MR SINDLINGER: One final question in regard to Bralorne. The annual report says that the debenture was acquired to help strengthen and diversify the Alberta economy. Inasmuch as (a) the funds from the debenture were required to retire debt and (b) the major portion of that company's business is

conducted in the United States, I wonder how that acquisition does in fact help to strengthen and diversify the Alberta economy.

MR HYNDMAN: I'm not sure that those two suggestions are correct or accurate. On the basis of the assessment of the debenture at that time we were confident that it met the criteria of the corporate debt issues and that it strengthened and diversified the province of Alberta when the investment was made.

MR SINDLINGER: Mr. Hyndman, according to the annual report of Bralorne Resources, it specifically stated that the \$40 million debenture issue was needed to retire debt and was in fact used for that purpose. Secondly, it's a matter of record that Bralorne does a major share of its business in the United States.

MR HYNDMAN: Retiring debt is not necessarily something which is going to weaken the province of Alberta. I think the corporation, as with Calgary Power and others that are considered, was one which it was felt would strengthen and diversify the province, just as other investments do. So I'm surprised that you would suggest that it was an Alberta corporation which did not hire Albertans, provide a payroll, provide jobs, provide expertise in the way of an invisible export that is sold around the world, in the United States as well. That's a bit surprising because I think it's almost prima facie that it strengthens and diversifies the province, and I think that's the better opinion in most of Alberta.

MR SINDLINGER: Perhaps. I'm not too certain that it would be the better opinion in most of Alberta. It's a matter of opinion also whether or not it would weaken or strengthen the economy. I'm not about to say that it would weaken, but on the other hand I don't see that anyone could say with absolute certainty that it is going to strengthen and diversify the economy because prima facie it does not.

MR HYNDMAN: In our considered opinion it clearly strengthens and diversifies the province of Alberta.

MR SINDLINGER: How can it do that when the money is going to retire a debt, and the major portion of the company's activities are outside the country?

MR HYNDMAN: It's a judgment call. As I say, I believe that the hon. member is simply wrong in his assertions and in his judgment on this matter. In our view, and I'm quite prepared to be wholly responsible for it, it is a corporation which strengthens and diversifies the province, has done so, provides jobs, has been an entity which it is desirable to support under the corporate debt program.

MR SINDLINGER: Would you be prepared to support that contention by quantifying what you've said in terms of jobs and business activity?

MR HYNDMAN: There's no question of quantifying it, Mr. Chairman. There are of course within all the investment divisions of the heritage fund judgment calls which have to be made and decisions which may turn out down the road to be the subject of debate and discussion. That's the purpose of this committee. The hon. member has one opinion, and we have a different one. Therefore those differences of opinion will remain, but it's not a question of bringing forth

other detailed information to make the decision. I stand by the decision that the corporation and the investment is one which is appropriate under the statute, and which did and will strengthen or diversify the province of Alberta.

MR SINDLINGER: Mr. Hyndman, I think the difference in opinion could be settled quite easily if you would demonstrate exactly how the economy was strengthened or diversified.

MR HYNDMAN: There's no need for me to demonstrate that, Mr. Chairman. The onus is on the hon. member, if he wants to put a counterargument to justify it.

MR SINDLINGER: Mr. Hyndman, I was just following up on your comment that you're willing to stand behind your judgment, and I believe that would be one way to do that.

MR HYNDMAN: No. The judgment is there on the basis of the decision and the investment that's been made, so I stand by it and will certainly take the judgment of the committee and the Legislature on the matter. That's accountability.

MR SINDLINGER: Mr. Hyndman, over the last five years there have been a considerable number of investments acquired and disposed of, acquisitions and dispositions of commercial paper and whatever. Have detailed records been kept of those acquisitions and dispositions, identifying what they were, when they were, and the reasons for them?

MR HYNDMAN: I imagine there certainly are records of the acquisitions and dispositions. As you know, last year we tabled, in response to a request by the committee -- and I'm happy to do this again this year -- a list of the investments which were held as of March 31, 1980. It's perhaps appropriate to do that for March 31, 1981. So I presume that lists are kept, but of course to divulge all or a significant portion of those other than a once-a-year, snapshot look would divulge the investment strategy of the government and therefore would enable others to take advantage of that strategy and would lower the yield and lower the rate of return.

MR SINDLINGER: Mr. Hyndman, you *presume* lists were kept, but were lists kept specifically of acquisitions and dispositions detailing the reasons for acquiring and disposing of those investments, particularly in regard to the Section 9 investments?

MR HYNDMAN: Well, there would be records of the minutes, which would indicate the various policies that were followed -- broad policies, narrow policies, daily policies -- with respect to the investments in various fixed income securities. I don't know, I'd have to check on the extent to which those records are in detail or not. Certainly there wouldn't be a detailed page or two on every single fixed income security that was purchased. But they all would be within the investment parameters firstly of the Act, secondly of the investment committee, and thirdly of the departmental investment parameters.

MR SINDLINGER: Mr. Hyndman, the issue here is accountability. What I'm trying to determine is whether or not those people on this organization chart are all

aware of what the other people are doing. That is, once a portfolio manager has disposed of an investment or a piece of paper, is there a way that his manager or supervisor can check or determine what that person has done and the reasons for his doing that?

MR HYNDMAN: All the decisions either to purchase or dispose are made within the parameters of the departmental investment committee, and those follow that of the investment committee itself, being the cabinet. So it's not as if there is totally unfettered discretion by anybody to make significantly large acquisitions or dispositions without proper authority. It's all done with the appropriate authority that starts with the Act and through the advice of the committee.

MR SINDLINGER: Taking a one-month period, could a supervisor or manager look back at the activities of a portfolio manager over the month and identify readily all the transactions that have (a) taken place and (b) the reason for those transactions?

MR HYNDMAN: Well, I think it would certainly be whether or not it would all be done by one portfolio manager. It may or may not be the case, but I think there certainly is a rationale, and a policy and decisions taken on tactics and strategy, behind every one of the purchases or dispositions under the fund. I can certainly assure him of that.

MR SINDLINGER: So then the rationale could be identified for each one of the actions or transactions?

MR HYNDMAN: I don't know. I'd have to check as to whether or not it's set up in that form. But there certainly is a legal approval basis for each of the decisions taken.

MR SINDLINGER: Would you consider it to be desirable to have some sort of system where the rationale could be identified and the appropriate individual held accountable for his actions?

MR HYNDMAN: I don't know. I think the way the democratic system works there is one appropriate individual held accountable for the entire heritage fund and all its decisions, and that's the Provincial Treasurer. That's a member of a government who can be elected or defeated. I think that's probably the best accountability.

MR SINDLINGER: I think that's good in theory as well. But certainly down on the practical level where you have individuals assigned certain functions and responsibility, that person has to be held accountable for his actions like anyone else in any other organization, whether it's business or government. I'm just trying to ascertain whether or not there is a mechanism or system in place to ensure that individuals handling the funds are held accountable for their actions.

MR HYNDMAN: Well, I'm sure that happens throughout the government. Yes, there's no question that on the various job descriptions, people who are highly qualified and have significant responsibilities in the Treasury Department or any other department -- if they don't carry out those responsibilities, then certain things flow. We have, though, a highly

trained, capable group. They perform the job and carry out the responsibilities.

MR SINDLINGER: In following up on that, Mr. Hyndman, the latest annual report indicates there were losses on transactions. I don't recall the terminology off-hand; I think it's net losses on sale of investments or something of that nature. It was \$14 million in this last accounting year. In the year prior to that the net loss on transactions was \$44 million. Prior to that it was \$3 million, for something like -- and my arithmetic has been proven incorrect earlier today. But it seems to me that's around \$60 million. So there's a net loss of around \$60 million on transactions. My question to you would then be: can these losses be specifically identified and related to the committee so we might be in a better position to assess the accountability?

MR HYNDMAN: I don't think it assists the yield of the fund. I think it probably impairs the investment performance of the fund to provide that kind of information. Any fund of this kind, any portfolio in North America over the course of the time period we're reporting here, was involved in losses, either in fact or unrealized, over the course of the time. All those decisions -- you're right that sometimes there can be a loss in sale of investments, and that can really take two forms. It can either be a loss that's realized to dispose of a security and then reinvest the proceeds in something that yields more when there is a decision taken that there's going to be a long-term or medium-term rise or fall. That approach would therefore improve the yield on the portfolio. Or else there can be a loss on sale of investments which will limit the potential future losses when the continued reductions are expected. In other words, if you can see nothing but a downward run on the value of a particular investment, you may want to sell it. But again, all those decisions are taken within the parameters of the investment committee, are decided upon and consciously done as a manner of investment practice, not only in the heritage fund but on the 50 pension funds in North America and in banks, trust companies, all sorts of institutions. We're all faced with that approach during the very volatile year of 1980-81.

MR SINDLINGER: Mr. Hyndman, I'm looking at the annual report now and the correct terminology is "net loss on sale of marketable securities". You've indicated that may result from one of two reasons: one is to yield more, and the other is a loss from sale of investments to limit future losses. Can you indicate which of these is most accountable for the losses in these annual reports? Of the \$60 million, is most of that due to a desire to change the instruments for something that will yield more? Or is most of that due to a loss on sale investments because of your judgment of future losses?

MR HYNDMAN: I don't know, but I think I can certainly find that out. I see no problem in making that information available.

MR SINDLINGER: Could you also go a little further and identify what transactions occurred, or the transactions that add up to that \$60 million?

MR HYNDMAN: I'm not sure whether . . . There again we run into the problem of revealing the investment strategy of the government. If that is the case, to reveal that information would be lowering the yield on the fund. So I doubt if that can be provided. But the initial question, I think the information can be provided.

MR SINDLINGER: Could you go a little further then and elaborate on why you think revealing these transactions which have occurred over the last five years, which are now over with, can impair or impede the investment strategy of the government? Shouldn't the people of Alberta know what the investment strategy of the government is?

MR HYNDMAN: I think the people of Alberta do know the investment strategy. Firstly, it's in the Act. It's a savings fund. Secondly, it's in the annual report. Thirdly, it's through the advice of the committee and, as you know, 85 per cent of all the committee's recommendations have been accepted over the last four years.

But I suppose at some point in time, going back a number of years, a certain amount of investment information can be revealed. I'm not sure how far back that would be. Any information, though, which would tend to reveal the investment tactics and strategy of any investor, be it the heritage fund or any other investor -- it makes no sense to reveal that and to give others the opportunity therefore to see on what basis decisions are made to buy and sell. Because that means others get an advantage, and it means a disadvantage to the heritage fund yield.

MR SINDLINGER: If you say the people of Alberta already know what the investment strategy of the government is, I have difficulty understanding how revealing what these losses were would compromise that point.

MR HYNDMAN: Well, they know that the investment strategy is as I've set forward, and as is in the Act, and as in a good number of speeches that have been made. I think Albertans generally are prepared, under the basis of the delegation that's in the Act, to leave some of the more minute and detailed day to day investment decisions to the investment committee, through the Treasurer, on the basis that they're going to hold the Treasurer and the government accountable. But as I say, they also want the fund invested on the basis of the public interest and on the basis of that fund keeping up a high yield. To reveal too much information is going to lower that yield.

MR SINDLINGER: Could I then respectfully just ask you in conclusion to make a best effort to reveal to us what those transactions were that entailed a \$60 million loss and, if they were the type that were turned in to acquire something that would give a larger yield, what those things were that were acquired to give a larger yield, so that we may judge the two in comparison?

MR HYNDMAN: I'll look at the issue, as I said, at an extent to which general information can be provided. But information which would result in a disadvantage to the fund or a lowering of the yield would not be appropriate to reveal. However, I'll see how much can be revealed. I think it would probably be a limited amount of information, frankly.

MR SINDLINGER: Could you then . . .

MR CHAIRMAN: I think the Member for Edmonton Mill Woods has been waiting with a supplementary for some time now.

MR PAHL: Thank you, Mr. Chairman. If I could comment on that point. I have some difficulty with the request because what we're asking you to do is show,

with the benefit of 20/20 hindsight, how a decision was in effect the wrong one, and that does not take a great deal of wherewithal.

The other point, I think, in order to respond properly to the question of the hon. Member for Calgary Buffalo, you would have to then reveal where the return dollars after a loss were placed, and what the increasing rate of return was on those. So it seems to me we are at the very heart of the need to keep the door closed. I appreciate your willingness to take the look, but I think it's worth while pointing out that at least this committee member sees some futility in that exercise and some very real danger because, unless you show where you placed your investments that you have taken out of loss positions and compare that with the continuing loss, you have not really served the examination very well. That gets into the day to day investment strategy in the future as well as the past.

MR R SPEAKER: Mr. Chairman, on a point of order to comment on that, I beg to differ. I think one of the responsibilities we have as a committee here is, one, to give advice and be the best watchdogs possible. If we can't get even general information in terms of to whom, without maybe figures, I think it makes our job impossible, in terms of any investment advice. I think hopefully the committee will consider giving as much information as possible to the committee from the minister.

MR CHAIRMAN: I have a little concern with the term "watchdog". I don't think the committee's purpose is to second-guess the investment committee and the counsel they receive from different advisors. It's to go over the annual report and to make recommendations. The purpose of the committee is not to be a second-guess investment committee, by my understanding.

MR R SPEAKER: Better advice for the next decision.

MR NOTLEY: Mr. Chairman, with great respect, our mandate is not just to look at the report but, where we think there are matters of concern, to make recommendations. If it can be demonstrated that there is some problem with the investment strategy, if it can be demonstrated, then I think we have an obligation to review that and make our report to the Legislature and, through the Legislature, to the people of Alberta.

I have some difficulty understanding why information which has taken place in the past is going to jeopardize our investment strategy in the future. It seems to me that we obviously have some accounting assessment now. Otherwise it wouldn't be in schedule B on page 30. So if that's the case, getting this information the hon. Member for Calgary Buffalo has requested is an effort to look at problems that may have occurred. Or, in fact, there may be a plausible reason for the decisions that were made, and perhaps there were circumstances quite beyond the control of those people who were doing the investing. But that kind of information in the past tense surely isn't going to jeopardize whatever investment strategy we have in the future.

I think that's a matter of some concern to us all, Mr. Chairman. For example, the very first series of questions when the committee began focussed around whether we should be putting as much money as we are in bonds and debt instruments. On page 25 we find that bonds represent a little higher percentage in this year's report than they did in last year's report.

I think it really ill-behoves us to say that we're any kind of committee, in terms of the mandate set out by the heritage trust fund Act for this committee, unless if we have concerns we express those concerns and attempt to

obtain information if it is possible to obtain that information. It may well be difficult. If I have any concern about the hon. member's request, I think it may be a fairly big job to get the information. But I don't think it's going to jeopardize our investment strategy. It may take an awful lot of time to get it.

MR HYNDMAN: It's not a question of the difficulty of getting it or the cost because those are not relevant to whether the information should be provided, in my view. If it were appropriate to get, it doesn't matter how much it would cost or how difficult it is to obtain. But the test here has to be whether or not it is going to be a disadvantage to the investment return of the heritage fund.

So the general approach which we certainly take is the one which I think would be followed by any other investment institution. If you look back you can always find patterns in which to assess the way decisions will be made in future. It's a question, I think, of how far back. Therefore that has to be, I think, a parameter which we look at. Because I don't think any members of the committee want to see information provided that's going to lower the yield of the fund, or may have a tendency to do that, where clever analysts can look at the strategies and tactics that have been taken of acquisitions and disposals.

MR D ANDERSON: Mr. Chairman, I certainly agree with the members who have expressed the opinion that we need the maximum amount of information that is available, to give advice and direction with respect to the heritage fund. However, I do believe in this particular instance that it's obvious the Provincial Treasurer would be required to very much curtail the details of the information given to us. Therefore at best we'll have a piecemeal picture of what has taken place. Any advice devolved or developed on the basis of a piecemeal picture could be dangerously worse off than not having those pieces of information.

I certainly can see the Provincial Treasurer's point with respect to seeing the past patterns and how they evolve and what impact they'll have on our future investments. Since one concern raised today by a number of members has been that yield to investment, I would be very reluctant to request any information that would only give us that partial part of the picture or, on the other side, might jeopardize our investments in the future.

MRS FYFE: Mr Chairman, I think in a committee such as this there's always a tendency to want to get into the administration and into the actual operations of the fund, where in effect I don't believe that's the mandate of the committee. That's why we have the structure with the investment committee, with responsibility to it.

I think all of us who have invested in marketable securities over the last number of years will have noted that perhaps it would have been better to have invested elsewhere, but that is not the question at point. The point at this time is the information that is relevant to this committee in order to make recommendations that affect the investment of the fund. If it is the desire of individual members to bring forward a resolution related to whether there should be further investments in securities or whether the risk is great, knowing the information that's available to us as members of the committee, then that member can bring forward such a resolution. But to have the actual investments, which has been suggested and pointed out on numerous occasions, could adversely affect the fund. I certainly don't feel it is right or that

we would want the responsibility of adversely affecting the fund for the future.

So I just add my comments to those that have already been made.

MR SINDLINGER: Mr. Chairman, on the point of order. I had no compunction at all in asking the Provincial Treasurer for information of this sort, especially when in his introduction to the annual report he refers to the select standing committee on the Alberta Heritage Savings Trust Fund and points out that it conducts an annual in-depth review of the activities. I think perhaps the question I've asked does tend to be an in-depth question. The minister has indicated that he'd make a best effort to give us that information.

In any case, over the last year or two, and this year again, I understand, he's going to provide a one-day profile of transactions. That is, on one particular day he has selected, he'll indicate to us what transactions were undertaken on that particular day. So all I'm asking him to do is something that's an extension of that as well.

MR HYNDMAN: Mr. Chairman, it would not be the transactions on that day. It would be the holdings, because the transactions showing those will get into exactly the problem of causing the disadvantage to the fund and the lowering of the yield. It will be the holdings of the fund on that given day which we, if the committee wishes, can provide.

MR SINDLINGER: Well, I thought the two were closely associated. But in any case, I think the purpose of this committee is to determine whether or not the placement of the funds has met the objective of the Heritage Savings Trust Fund. One of the objectives of the Heritage Savings Trust Fund is to earn revenue or income for the province of Alberta. Now on the surface of it, when we look at this one particular item of the net loss on marketable transactions of \$60 million accumulated over the last three years, the placement of the funds does not meet the objectives of the Heritage Savings Trust Fund; that is, to earn revenue. We've in fact lost \$60 million. However, the Treasurer, in explaining those things, pointed out to us there was a good reason for that. All I'm asking him to do is to elaborate on that reason and demonstrate to us that it was in the best interests of the fund in the long-term to incur those losses of \$60 million. I think that's a question the committee should direct itself to.

MR PAHL: I agree. But I don't think, Mr. Chairman, we need to specify the instruments that led to that decision. That's my point and was the point all along. We have a commentary on page 24, for example, Mr. Chairman. It indicates what the investment environment was, and certainly the decision to dispose of certain securities presumably would be consistent with that assessment of that market and investment environment. I would certainly support the effort to raise that question and would invite a reply from the Provincial Treasurer. But I fail to see how looking back at the specific instruments would serve the purpose of providing advice to the Provincial Treasurer and the Legislature on the management of the fund. I think we're not at odd purposes. We're at odd purposes with respect to what's to be gained by revealing investments and divestures in detail.

MR CHAIRMAN: I think we're beginning to get a bit repetitive. What I said before, I think the Chair has got to get in at this stage.

My impression, and I've read a lot about the function of this committee, is to do those things I mentioned. It is not to be a second-guess on the investment committee. It's not to go into the details of the investments, but to look at the general policies and to make recommendations. If any member wishes to make a recommendation subsequently during the later discussions of the committee on anything like that, then it's quite possible for them to bring such a recommendation for discussion and to see if it goes into the final report of the committee. But at this time my impression is certainly not that the function of this committee includes a detailed review of all the investments made on the recommendation of the department and other advisors by the investment committee.

MR ZAOZIRNY: Mr. Chairman, if I could just comment. Perhaps I'm missing something here in the exchanges, but it was my understanding that the Provincial Treasurer was of the view he could provide certain information for the benefit of the committee, to assist them in their responsibilities here. But bearing in mind, and there's an exercise of judgment required here, that one has to be absolutely satisfied they're not imperilling the return to the fund by disclosure of too detailed information.

So perhaps the Provincial Treasurer could clarify the matter for me. I was left with the impression, in his initial response, that he felt there was some information that could be compiled and properly made available. Then we seem to get into this discussion on the absolutes on either side. Now if I've misunderstood the Provincial Treasurer, I'd appreciate his clarification of his view of the situation.

MR HYNDMAN: I gather we've been close to binding two concepts together. Firstly, I gather we're not discussing the part of the annual report that relates to the provision for decline on the value of marketable securities because that is not a loss that's been realized. That's something separate from what has been under discussion, which I understand is the net loss on sale of investments. In fact, I think eyebrows would have been raised if there had not been a net loss on sales of investments during this fiscal year, because every financial institution in Canada properly had that net loss situation or they wouldn't have been properly handling their accounts.

However, what I indicated was that the extent to which there could be a breakdown there of the proportions of the net loss that related to simply a sale of some of the assets for later reinvestment, and other parts which were sold not for later reinvestment -- that the extent to which we could get into detail there, I would do the best I could, bearing in mind the criterion of not providing information that would adversely impact on the performance of the fund. So we'll see what we can do, but that would be the caveat.

I might mention, though, I'll probably provide information indicating the deposits in marketable securities performance of 13.5 per cent yield and 15.1 per cent of the money market, which is in the high range of Canadian investment performance. I'll also provide details on that.

MR CHAIRMAN: Thank you, Mr. Minister. I think we can go on now.

I have the Member for Edmonton Belmont followed by the Member for Calgary Forest Lawn.

MR R SPEAKER: Mr. Chairman, your judgment with regard to the purpose of this committee concerns me a little bit. Historically we've had latitude to discuss a wide range of topics. Historically I have felt my responsibility on

this committee was to examine mismanagement of the Heritage Savings Trust Fund by this government or good management by this government. Whatever details we require, we can ask for them. I'm a little concerned when the Chair's decision is to limit our discussion to policy rather than some of the specific areas. If it means that in this specific instance we're talking about there is some mismanagement and this committee determines that, or I as a member, or any other member determines that, and it affects the future investment return of the fund, then it has to happen. So I just do not agree with the Chairman's decision, if I interpreted it correctly. Because we are here to take on a public responsibility. I don't think that public responsibility can be restricted.

MR CHAIRMAN: For the benefit of the Member for Little Bow, he wasn't here at the time of the organizational meeting a week past yesterday, on August 17. It was discussed at that time that we were not functioning within the very narrow parameters of Section 13(3) of The Alberta Heritage Savings Trust Fund Act. What I was saying was I really have not found any indication anywhere in anything I have read that the function of this committee includes second-guessing on the detailed investments made by the investment committee.

MR NOTLEY: Mr. Chairman, with great respect, on the point of order. Indeed it does. One of the detailed investments that led to a good deal of discussion last year was the Kananaskis investment, not only the general investment but many of the detailed aspects of it, and was discussed quite comprehensively, and properly so, by this committee. One of the detailed investments of the investment committee was the Alberta Housing investment in the Airdrie trailer park. It led to not only a good deal of discussion by this committee but a field trip to Airdrie. One of the detailed investments was the \$60 million to the cancer centre in Calgary, which led to almost three weeks of continued discussion in 1978 by this committee.

So I would say with great respect to your judgment, Mr. Chairman, that indeed we have that obligation. It is not an automatic right to go on a fishing expedition. Members have the obligation of being able to carry the judgment of other members of the committee. If the hon. Member for Calgary Buffalo can carry the judgment of other members of the committee and request certain information, well and fine. That information should be presented by the government. But I think it would be a serious misreading of our statutory obligation if we did not recognize that the decision to either seek or not to seek information is something that is very much within our confines as members of the committee, collectively, that we make the decision on.

MR D ANDERSON: Mr. Chairman, I guess I'm becoming somewhat confused. Maybe you could clarify for the committee whether your comments were a ruling of sorts or a comment. Indeed if they were a comment, which I took them to be, then those comments, like any other, would be applied to specifics as we go along. I understood that the specific we were just discussing had been completed with the Provincial Treasurer's undertaking to provide that information which he could without jeopardizing investments.

In terms of the general, I think it's a nice theoretical discussion, but until we have a specific to discuss and relate to it, your own opinion, Mr. Chairman, would be as valuable as the rest of ours, I would think. Could you clarify? If you made a ruling I think it's open for discussion. If you indeed just made a comment, I think we're probably wasting time.

MR CHAIRMAN: Thank you for the compliment that I'm as capable as the rest. What I was doing was making a comment in view of all the reading I've done, because several members of the committee, like myself, are new to the committee this year.

As far as the investments that have been made previously, I think Kananaskis and the cancer hospital come out of the capital projects division and are authorized in advance by the Legislature. It's a different set-up from the other investments that are being discussed in the present discussion.

I think the Member for Calgary Buffalo had his hand up again. I think we'll make this the last supplementary on this particular subject and then get on to members for Belmont and Forest Lawn.

MR SINDLINGER: After Mr. Anderson's comment, there's nothing that I could say that would enhance this discussion.

MR MACK: Mr. Chairman, I'd like to briefly take the Provincial Treasurer to the capital projects division, if I may. I note that under the enabling Act there is a provision for 20 per cent of the fund to be invested in such assets, and to date there's been a take-up of something in the order of 12 per cent. My question to the Provincial Treasurer is: was this simply because the availability of projects did not present themselves? Or was a deliberate, conscious decision made to lessen those investments on the part of the investment committee? Similarly, if we view the \$300 million medical research fund, the \$100 million scholarship fund, and \$128 million to the Alberta oil sands technology research.

I'm wondering if the minister could shed any light whether during a period, particularly if we are going to go into a protracted lack of an energy agreement with the federal government, there will be serious or further consideration in the area of providing for the well-being of the province an infrastructure, investments, programs across the province through the Heritage Savings Trust Fund in order to maintain at least a degree of buoyancy in the provincial economy.

Closer to home I'm particularly thinking of the northern Alberta children's hospital, and whether there would be any immediate consideration of perhaps putting that one on the drawing board, Mr. Treasurer.

MR HYNDMAN: On the general approach with regard to the capital projects division, the hon. member is correct that the Legislature has put the ceiling of 20 per cent on the total percentage of the fund which could be in that division. At the moment it's considerably less than that. The approach certainly is not one of simply trying to fill up the 20 per cent, and I think it suggests a responsible and measured approach to investment for capital projects by reason of the investment being significantly less than the total.

The future is a difficult one to try to predict because we can't put any focus of course on the revenue and expenditure situation of the province with the energy situation as it is now. In future, I don't know. It's hard to predict what capital projects would be proposed, if any, to the Assembly. As we know, this year there are very limited moneys available, and the municipalities and people wanting to build homes are taking most of it. So that will have to depend on what is brought forward by way of suggestions to the Assembly in future years in the heritage fund estimates of the fall. There are additions of course to existing projects that haven't been completed, and in past years there've been new projects fairly regularly. But the amount of funds available may preclude new projects at some time, facing a

very different revenue picture in the province, as I indicated, with regard to the General Revenue Fund in the budget. The same restriction of choices and the need to make decisions as between competing projects will be the reality for the heritage fund.

MR ZAOZIRNY: Mr. Chairman, I'd like to return for just a moment to the topic of diversification of the Alberta economy. I think it's fair to say that this has been viewed as an important goal by many Albertans, and certainly this government, for some number of years. Earlier this afternoon the topic has arisen in response to a query by the Member for Calgary Currie where, if I understood you correctly, sir, you mentioned that the corporate debt opportunities haven't been taken up to a very large extent by corporate borrowers, and then again in questions from the Member for Spirit River-Fairview in regard to the allocation to the Alberta Opportunity Company, in its being a relatively small percentage of the overall fund.

I'd like to ask what is perhaps a rather general question, but I think an important one and, viewed from your vantage point, very important that we have your opinion on this. It is simply: to what extent do you believe that the Heritage Savings Trust Fund can in fact be a vehicle for real diversification of the Alberta economy to try to lessen, if you will, our dependence on revenues from non-renewable resources? From the experience of the last number of years and your experience in this portfolio, what would be your judgment on that matter?

MR HYNDMAN: Well, there has been very, very considerable diversification of course over the last 10 years if you look at petrochemicals, coal, agricultural processing, forestry, and many areas such as that. However, I have to look at the fund from the point of view of the guidelines of the legislation, which sets it up essentially as a savings trust fund. There are investments through the Alberta investment division, more than half the fund, which do strengthen and diversify the province in a number of ways, many of them listed in the report, an upcoming one perhaps being the Prince Rupert grain terminal. But the extent to which that diversification is going to take place in future is, I suppose, unpredictable. I think the heritage fund through its Alberta investment division investments has been encouraging diversification, and that essentially the climate for investment and entrepreneurship in the province has provided the capital dollars available for that.

I don't think anyone wants to see artificial, force-fed diversification. We've seen some examples in the west in the last two decades which did not work because there's no market, and they bore no relation to the market reality. But the heritage fund, as it is now doing, will look for and, I think in future, hopefully, with the advice of the committee, fill in the gaps of areas where diversification could be stimulated, perhaps where the private sector is unwilling or unable to go, and therefore continue that diversification which has already been quite exceptional in the last decade.

MR CHAIRMAN: There's another hand up. I only had the Member for Little Bow. It's the official end of our meeting, but does the committee wish to try to continue and finish with the appearance of the Provincial Treasurer at this time?

HON MEMBERS: Agreed.

MR CHAIRMAN: What about the Provincial Treasurer?

MR HYNDMAN: I'm sure we can adjourn for dinner.

MR R SPEAKER: Mr. Chairman, two questions, somewhat unrelated. One is related to the earlier subject of Bralorne. I was wondering, as a minister does the minister become involved in that process of hearing the presentation or request from a company such as Bralorne Resources, or a number of others that most likely make presentations? In a presentation such as that, is there a prospectus that's made available to the Provincial Treasurer or the committee? Is it a public one?

Secondly, what would be the relationship of a presentation or prospectus such as that and the involvement of the Securities Commission?

MR HYNDMAN: Well, it would be a private prospectus because those kinds of prospectuses would reveal, to all those who might be investing in the debenture, in very great detail every aspect of the company's operation, so that a decision could be made by the investor as to whether to make a purchase.

But in answer to the first part of your question: no, essentially the initial stage is usually in the form of documentation presented to the departmental investment committee, perhaps on the basis of a private offering, where it's known that \$40 million or \$50 million is sought through a debenture and that there would be of course always 33 per cent taken up by the private sector, and the question being put: would the heritage fund be interested? Then that is assessed, reviewed, taken apart, more information asked for, weighed by the departmental investment committee. It may or may not then proceed into the investment committee of cabinet. If it simply is not seen as being a valid investment, then it might stop right there. On the other hand, it might be recommended to the investment committee, which might turn it down or approve it. But very few, if any, initiatives are taken to the Provincial Treasurer. That sometimes happens because people read the annual report and feel they should write a letter initially to the Treasurer.

MR R SPEAKER: In the process, the cabinet committee doesn't meet with, say, the board of directors of a company such as this before the final decision is made to discuss the matter?

MR HYNDMAN: No, the representations are not those of individuals. What we have to look at is the objective, stark reality of the balance sheets of the company; in other words, their performance as indicated in the documentation. We might sometimes get a third opinion from someone in the investment community if we wish. But it's not a question of personal representations. These investments are looked upon on the basis of the detailed paper work, just as an investment in a Treasury bill, say. We don't call in the cabinet of another province when we have a look at the investments.

MR R SPEAKER: I notice that on the board of directors of the company there are 10 persons. Prior to making the final decision with regard to the debenture of \$5 million, did you or any of the cabinet committee meet with those members of the board of directors?

MR HYNDMAN: No.

MR R SPEAKER: I notice also in examining the residence of the board of directors that one out of the 10 is from Alberta. Is that a consideration in the overall discussion in determining the final allocation or an agreement with regard to a debenture loan?

MR HYNDMAN: No. The consideration is, as we stated when we developed the program, whether or not the investment would, firstly, be a good investment, and would also strengthen or diversify the province. Thirdly, was there also at least a one-third investment by the private sector, and was it a solid, good return for the fund. Those are the criteria. The question of the residence of the directors would not be a criterion. If that were put in as a requirement, then you would lower the yield on the heritage fund.

MR R SPEAKER: Mr. Chairman, the other subject I want to raise with the minister is one I raised earlier with regard to reduced borrowings to the other provinces of Canada, from \$600 million to \$400 million, and that the change of emphasis on the fund will be towards capital projects, specifically in the area of housing. I just want to assure myself that that is the intent of the government at this time and that the report within *The Globe and Mail* article of July 23 is accurate.

MR HYNDMAN: I have a copy of that report. Because it's in the present tense I don't think it was correct in the sense that it would not have been possible for me to indicate that in future there would have been a substantial increase in heritage fund investments in housing because at the moment of course the moneys coming into the heritage fund are going down in terms of previous years. So there's no question, as the chart indicates, that the amounts of moneys, well over \$1.5 billion now invested in subsidized housing for Albertans, is a very high amount. But what the future will hold, I don't know.

So I would say that statement in the article is incorrect in the suggestion that there's going to be any sort of substitution. As the report indicates, the choices have to be made. The moneys aren't available to do these things. They are getting very, very high. If the rates of increase continue for the Crown corporations, they can't be funded from the heritage fund if the moneys won't be available.

MR R SPEAKER: Mr. Chairman, just a comment. The earlier comments of the Provincial Treasurer seemed inconsistent with the statement there, and I wanted to clarify that. But it's clear to me now.

MR SINDLINGER: Mr. Chairman, just a quick question. Earlier, Mr. Hyndman, you referred to the guidelines for the commercial investment division as entailing nothing more than a 5 per cent investment in any particular company or entity. On the other hand, we already have 8 per cent in the Syncrude project, and there's a potential for a total of 17 per cent equity in that. We have 50 per cent equity in Alberta energy corporation. I wonder perhaps if you might elaborate on that distinction between the two and, other things being equal, would there be a change in the holdings of Syncrude and Alberta Energy Company?

MR HYNDMAN: No, the guideline is not intended to be retroactive. Certainly the investments are over 5 per cent, those equity investments of the fund. But the guideline says that generally the investment would not be over 5 per

cent. That's simply to make it clear we're looking for a diversified portfolio. That doesn't necessarily mean either that there would simply be 20 companies of 5 per cent each. There could be 400 companies. So it's simply indicating there will be a diversification there, and that that's a general guideline. But there could be circumstances where it would be exceeded. I can see in the past there have been equity involvements in those two mentioned and one other which are substantially over 5 per cent.

MR SINDLINGER: Just as a quick supplementary then. In the event there is an investment by the Alberta government in future tar sands or heavy oil developments, would that 5 per cent criterion still apply? Or are you saying that that might be an extraordinary situation, and you'd take the particular circumstances into consideration?

MR HYNDMAN: Yes, it would not apply with regard to the energy division investments. That's the area where, as we indicated in the offer of July 25, 1980, regrettably turned down by the Prime Minister, we'd be prepared to invest \$8 billion in subsequent tar sands plants. So that would have been, I think at that time, greater than 5 per cent.

So that does not apply to the energy investment division. It's still wide open as to the amount of equity investment in that area. It's simply the commercial division.

MR SINDLINGER: Thank you, Mr. Hyndman.

MR CHAIRMAN: Are there any more questions for the minister?

I'd like to thank the minister for appearing in his somewhat over two hours, and the information he gave to us. It may well lead to some recommendations coming from various members. Thank you very much, Mr. Minister.

We'll now adjourn until tomorrow morning at 9:30, when the Premier will be appearing before the committee. Thank you.

The meeting adjourned at 3:40 p.m.