



Legislative Assembly of Alberta

The 29th Legislature  
Fourth Session

Standing Committee  
on the  
Alberta Heritage Savings Trust Fund

Wednesday, March 21, 2018  
7 p.m.

Transcript No. 29-4-1

**Legislative Assembly of Alberta  
The 29th Legislature  
Fourth Session**

**Standing Committee on the  
Alberta Heritage Savings Trust Fund**

Coolahan, Craig, Calgary-Klein (NDP), Chair  
Schreiner, Kim, Red Deer-North (NDP), Deputy Chair

Clark, Greg, Calgary-Elbow (AP)  
Cyr, Scott J., Bonnyville-Cold Lake (UCP)  
Dang, Thomas, Edmonton-South West (NDP)  
Ellis, Mike, Calgary-West (UCP)  
Fitzpatrick, Maria M., Lethbridge-East (NDP)\*  
Horne, Trevor A.R., Spruce Grove-St. Albert (NDP)  
McKittrick, Annie, Sherwood Park (NDP)  
Sucha, Graham, Calgary-Shaw (NDP)\*\*  
Turner, Dr. A. Robert, Edmonton-Whitemud (NDP)

\* substitution for Annie McKittrick

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Brad Ireland	Assistant Auditor General
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## **Standing Committee on the Alberta Heritage Savings Trust Fund**

### **Participants**

Ministry of Treasury Board and Finance

Rod Babineau, Manager, Portfolio Analysis, Capital Markets

Lowell Epp, Assistant Deputy Minister, Treasury and Risk Management

Stephen J. Thompson, Executive Director, Capital Markets

Alberta Investment Management Corporation

Mark Prefontaine, Senior Vice-president, Client Relations

Kevin Uebelein, Chief Executive Officer



7 p.m.

Wednesday, March 21, 2018

[Mr. Coolahan in the chair]

**The Chair:** Good evening, everyone. I'd like to call this meeting of the Standing Committee on the Alberta Heritage Savings Trust Fund to order.

My name is Craig Coolahan, the MLA for Calgary-Klein and chair of the committee. I would like to ask everyone at the table to introduce themselves, starting on my right, please.

**Mrs. Schreiner:** Good evening. I'm Kim Schreiner, the MLA for Red Deer-North and vice-chair of the committee.

**Mr. Ellis:** Mike Ellis, Calgary-West.

**Mr. Cyr:** Scott Cyr, the MLA for Bonnyville-Cold Lake.

**Mr. Clark:** Good evening. Greg Clark, MLA, Calgary-Elbow.

**Mr. Prefontaine:** Mark Prefontaine, AIMCo.

**Mr. Uebelein:** Kevin Uebelein, AIMCo.

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

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

**Mr. Babineau:** Rod Babineau, Treasury Board and Finance.

**Mr. Ireland:** Brad Ireland, office of the Auditor General.

**Mr. Robe-From:** Nelson Robe-From, office of the Auditor General.

**Mr. Saher:** Merwan Saher, Auditor General.

**Dr. Turner:** Bob Turner, Edmonton-Whitemud.

**Mr. Horne:** Trevor Horne, Spruce Grove-St. Albert.

**Mr. Sucha:** Graham Sucha, Calgary-Shaw, substituting for Thomas Dang.

**Ms Fitzpatrick:** Maria Fitzpatrick, Lethbridge-East, substituting for MLA McKittrick.

**Ms Antoniuk:** Danielle Antoniuk, Legislative Assembly communications.

**Mr. Koenig:** Good evening. I'm Trafton Koenig with the Parliamentary Counsel office.

**Dr. Massolin:** Good evening. Philip Massolin, manager of research and committee services.

**Mr. Roth:** Good evening. Aaron Roth, committee clerk.

**The Chair:** Good. Thank you.

For the record, as per Standing Order 56(2.1) to (2.4) Ms Fitzpatrick is substituting for Ms McKittrick and Mr. Sucha is substituting for Mr. Dang.

A couple of operational items. Please note that the microphones are operated by *Hansard* and the committee proceedings are being live streamed on the Internet and broadcast on Alberta Assembly TV. Please set your cellphones and other devices to silent for the duration of the meeting.

The first item on the agenda is the approval of the agenda. Are there any changes, additions to the draft agenda? Seeing none, would a member like to move acceptance?

**Ms Fitzpatrick:** I so move.

**The Chair:** Ms Fitzpatrick moves that the agenda for the March 21, 2018, meeting of the Standing Committee on the Alberta Heritage Savings Trust Fund be adopted as circulated. All in favour? Any opposed? Seeing none, that motion is carried.

Next we have approval of the minutes from the January 16, 2018, meeting of the Standing Committee on the Alberta Heritage Savings Trust Fund. Does anybody see any errors or omissions to note in the minutes from that last meeting? Seeing none, would somebody like to move that we accept those minutes? Mrs. Schreiner moves that the minutes for the January 16, 2018, meeting of the Standing Committee on the Alberta Heritage Savings Trust Fund be adopted as circulated. All in favour? Any opposed? Seeing none, that is carried.

The Alberta heritage savings trust fund third-quarter report for 2017-2018 was released on February 28, 2018. Committee members were sent notification of its release, and the report was posted to the committee's internal website. The Alberta Heritage Savings Trust Fund Act mandates that one of the functions of the committee is to receive and review quarterly reports on the operation and results of the heritage trust fund. We are pleased as always to have Kevin Uebelein and Mark Prefontaine from AIMCo and Lowell Epp, Stephen Thompson, and Rod Babineau from Treasury Board and Finance here to assist us with our review.

I will now turn the floor over to Mr. Epp – are you going to go first? – and then we can take questions. Mr. Epp.

**Mr. Epp:** Thank you, Mr. Chair and members of the committee. As always, it's a pleasure to be here and to discuss the heritage fund and its recent performance. Minister Ceci is unable to be here this evening and sends his regrets. As required by the Alberta Heritage Savings Trust Fund Act, we are here today to provide this committee with an update on the heritage fund's activities and financial performance for the most recent quarter. I will spend a few minutes going over some of the highlights of the report and then ask my colleagues from AIMCo to speak about the fund's results from their perspective and provide some commentary on what they see happening in the markets.

The legislated objective for the heritage fund is to maximize the long-term investment returns for the fund within a prudent level of risk. The heritage fund provided a return of 7.1 per cent over the first nine months of the 2017-18 fiscal year. Given that equities are the largest segment of the fund's investments, these results were clearly driven by the fund's equity investments, which returned 8 per cent. Inflation-sensitive assets similarly have had a good year so far and have returned 8.9 per cent for the first nine months. Fixed income, which makes up about 20 per cent of the fund, has returned 1.4 per cent so far this year. The fund continues to exceed its long-term objectives, with a five-year annualized rate of return of 11.1 per cent and a 10-year rate of return of 7.4 per cent.

The heritage fund had a fair value of \$17.5 billion as of December 31, which is net of the \$1.2 billion of income payable to the general revenue fund.

The heritage fund's portfolio was allocated in the following asset classes: 45.1 per cent in equities, 35.1 per cent in inflation-sensitive and alternative investments, and 18.7 per cent in fixed income. The final 1.1 per cent is invested in what are known as overlays.

The fund has earned \$1.4 billion so far this fiscal year after expenses of \$99 million. Investment income is slightly more than the investment return would suggest because gains from previous years have been realized during this fiscal year.

I would like, finally, to provide a short update on the Alberta growth mandate. In Budget 2015 the government announced that 3

per cent of the heritage fund would be allocated to directly invest in Alberta growth. Since this announcement AIMCo has made 25 separate investments for a total of \$349 million. AIMCo, of course, manages day-to-day investment decisions of the heritage fund independent from government, and decisions made about investments are made within that scope and within the mandate of the fund to maximize its long-term earnings. Investments that clearly fit into the Alberta growth mandate must also meet the heritage fund's legislated requirement to maximize long-term investment returns. We will continue to provide the committee clerk with periodic reporting regarding investments made under this mandate as progress is made.

That concludes my remarks, Mr. Chair, and I would pass it back to you.

**The Chair:** Good. Thank you.

AIMCo.

**Mr. Uebelein:** Thank you, Chairman Coolahan and members of the committee. As Mr. Epp has already commented on the heritage fund's performance for the nine months through December 2017, I will not discuss them further at this time, but of course Mark and I will be happy to respond to any questions in this regard. I will, though, make just a few brief comments on AIMCo's overall performance and on the current market environment.

As you know, AIMCo manages a combined portfolio of about \$104 billion, of which the heritage fund assets represent about 18 per cent. The largest proportion of our combined portfolio, about 60 per cent of it, is assets that are invested to support pension obligations for Alberta-wide public employees. As I've mentioned before, there are significant advantages to investing at a scale such as this, and these advantages – lower cost, increased diversification, and broader and deeper investment expertise – accrue directly to the benefit of all the component clients that AIMCo serves.

Some of our clients, the heritage fund included, have a March 31 fiscal year-end while other AIMCo clients use a calendar year reporting cycle. AIMCo itself, in fact, reports on annual performance based on a calendar year reporting cycle. So right now we're preparing for our public announcement of our all-in 2017 performance figures. In advance of the official public release I can share with you on a preliminary basis that our overall performance for the year was very strong. Our annual performance on an all-in basis was well in excess of 9 per cent for the year. As an important subset AIMCo's performance on behalf of our pension and endowment clients was even higher, with returns well in excess of 10 per cent over the same 12-month period. I remind you that both of these figures are net of all of our costs and expenses.

These strong absolute returns were aided by AIMCo's success in outperforming its benchmark during the year. We exceeded our benchmark by about 1.2 per cent, or 120 basis points. Now, if we convert that 1.2 per cent of overperformance into dollars of value-add, it calculates for the year to be about \$1.1 billion of additional earnings above the benchmark return, again, net of all expenses. We at AIMCo refer to this figure as our dollar value-add performance. This \$1.1 billion figure is more than just a theoretical dollar amount as it represents real extra dollars of earnings that are helping keep Alberta pensions healthy and that help keep pension contribution rates as reasonable as possible.

The strong absolute performance we've experienced is a reflection of the continuation of a bull market that we've been operating within now for almost 10 years, and as Dale MacMaster, our chief investment officer, has mentioned before to this committee, this is now one of the longest bull-run markets in history. During 2017 we saw economies around the world report

steadily improving economic fundamentals, which have allowed for the continuation of this bull run.

7:10

During the year we experienced a rare simultaneous combination of three factors in the asset markets; that is, one, extremely low interest rates; two, truly boom-time equity prices; and three, virtually no market volatility whatsoever. Any one of these readings is exceptional to have, but experiencing all three of them at the same time is something extremely rare. I would not be climbing out on a limb to suggest that it is unlikely to last, and in fact since mid-February of this year we have been experiencing elevated levels of market volatility. Frankly, we consider these recent volatility levels to be a reversion to the norm, and the almost nonexistent volatility that we were seeing during much of 2017 was the anomaly.

Even with increased volatility, global economic fundamentals remain strong, so the near-term challenges to asset prices are not economic fundamentals but, rather, the fact that valuations are very, very high and central banks around the world are raising interest rates. We believe that the magnitude and pace of interest rate increases will be a big factor in how 2018 unfolds for the investment markets.

Those are all of my observations for now, but we're happy to address any questions that you have.

**The Chair:** Great. Thank you for your presentations.

I will open the floor to questions. I'll keep a list. I've got Mr. Ellis first.

**Mr. Ellis:** Thank you very much, and, gentlemen, thank you for being here. Mr. Uebelein, thank you for your most recent statement there. I guess my question in regard to AIMCo has to do with much of the talk and excitement regarding renewables. I was wondering if AIMCo has recently invested in any renewables and if they're seen as a sound investment; say, for example, you know, EDP Renewables, Enel Green Power, Capital Power. These investments: have they been done by AIMCo? If so, maybe you can expand on them.

**Mr. Uebelein:** Yes. As a matter of fact, AIMCo is a 49 per cent investment partner with Enel Green Power, so we are almost a 50-50 partner with Enel. As you know, the province of Alberta had a controlled auction for this, I guess, roughly 230 megawatt wind-power project. We're an active investor, and this was probably the most notable recent investment that we made.

**Mr. Ellis:** Chair, one follow-up?

**The Chair:** Sure.

**Mr. Ellis:** Thank you. I think, as my colleague just recently pointed out – are you able to provide this committee with a list of the 25 investments that you've done as the Alberta growth mandate, just so we have an understanding of what companies you've invested in?

**Mr. Uebelein:** I'm certain that we can provide you with that.

**Mr. Ellis:** Thank you, sir.

**Mr. Uebelein:** As of this date it's actually risen to 28. Between December 31 and this date we've made three more investments.

**Mr. Ellis:** Thank you, Chair.

**The Chair:** Great.

Mrs. Schreiner.

**Mrs. Schreiner:** Thank you, Mr. Chair, and thank you for the presentations this evening. A question I have. I understand AIMCo was one of the first institutional investors in Canada to do carbon footprinting. Could you explain what that means and why that is important for investments that take a long view?

**Mr. Uebelein:** Yes. Several of our clients, most notably our largest client, which is the local authorities pension plan, have an interest in exactly what the carbon footprint is of our investment portfolio. They haven't placed any constraints on it, but they're very interested in not just where it is but the trajectory of it. The truth of the matter is that accurately measuring the carbon footprint of a diverse portfolio like ours is as much an art as it is a science because only a minority of companies actually provides accurate carbon footprint disclosure in their reporting, and all other companies have to be basically estimated through third parties. I don't have in mind our exact carbon footprint numbers other than to say that we're relatively underweighted against the benchmark of the entire market.

**Mrs. Schreiner:** A follow-up?

**The Chair:** Yeah. Sure. Go ahead.

**Mrs. Schreiner:** Thank you for that. I was wondering if you could speak about AIMCo's strategic response to climate change. For example, how is taking climate change into account paramount for ensuring that AIMCo's investments will be there for future generations?

**Mr. Uebelein:** AIMCo's current view is that we engage with all of our investee companies to make sure that they have an ESG policy and platform. We're looking to, if you will, overinvest in those companies and those management teams that we believe have a progressive and long-term strategy in terms of managing the environment, but, as you know, with \$100 billion we invest in virtually all industries, and that includes the oil and gas industry.

**The Chair:** Mr. Clark.

**Mr. Clark:** Thank you very much. Thank you all for being here. I'm just going to pick up on questions, again, about the Alberta growth mandate. We discussed this last time. I think that we had received a written response from you, but I just wanted to ask here in this public forum. What I was asking last time: of the two investments that have been exited, what was our return on those? In the written response that we received, there was some commentary about perhaps keeping our expectations in check. As a very conservative and cautious investor in my own life that's something that, obviously, I think is important but especially important for the work that you do. I just wanted to give you an opportunity to comment specifically on the return that has been made on the two investments that have been exited and the Alberta growth mandate and just sort of set some expectations there.

**Mr. Uebelein:** Yes. For those of you who saw our responses to the questions from the previous standing committee, the two investments which we've since exited generated an annualized rate of return in excess of 38 per cent. Those numbers are not something that we should project across the whole portfolio. They reflect a couple of things. One is that, indeed, at the trough of the oil price recession there were some real bargains to be had, and we participated in those bargains both as part of the 3 per cent allocation of the heritage fund but also for the benefit of all of our clients. Secondly, these are two examples where we elected to exit

because we thought that the price someone else was willing to pay for those securities was extremely good. We are typically long-term holders, but if we can generate those sorts of returns over a shorter period of time and then reinvest, we will take those profits and reinvest.

We see the flow of capital back into the oil patch here in Alberta returning, so while we still see good opportunities – in fact, some of these more recent investments that bring our number from 25 to 28 are also in the Alberta oil patch – we do not expect to see returns remotely close to 38 per cent. I hate to break your bubble.

**Mr. Clark:** Yeah. If I could just offer a quick follow-up, I know we're talking about the third-quarter update here and only the 25 investments, but when we last met, we talked about those 25 investments, which represented only about 2 of the 3 per cent of the money that had been allocated as part of the growth mandate. You talked about how just because the 3 per cent money is there, it doesn't mean you're going to go make foolish investments simply to get to 3 per cent. You're always going to run that through the screen that you do, which again, of course, is prudent. But are we any closer to the 3 per cent, or are we still closer to 2 per cent total?

**Mr. Uebelein:** Well, with the additional three investments, which summed a little in excess of \$100 million on an all-in basis, and in that that's allocated to the 3 per cent is closer to \$20 million to \$25 million – yes, we are closer. We are incrementally closer. We also have some undrawn commitments. In other words, some of the investments that we made earlier include a portion of further investments that are undrawn by the investee company. But, again, we are going to be patient investors. We think that rushing to fill a quota is the path towards bad returns.

7:20

**Mr. Clark:** Thank you.

**The Chair:** Thank you.

**Mr. Cyr:** Thank you for joining us this evening. I'm sure you run to come for the Alberta heritage trust fund to join us at these meetings. I was reviewing some of the investments that you had purchased before for the Alberta growth mandate. Is Calfrac still within that group?

**Mr. Uebelein:** I believe that Calfrac has been – am I right that Calfrac has been exited? [interjections] I got one yes and one no.

**Mr. Cyr:** It sounds like you're in government.

**Mr. Uebelein:** Exactly.

I believe we still hold Calfrac investments. I'm mistaking it with Savanna, which we did exit.

**Mr. Cyr:** We talked extensively about that one, too.

**Mr. Uebelein:** Yes. I recall that vividly.

**Mr. Cyr:** All right. An article just came out on March 1, Calfrac Joins Canadian Operators Redeploying Equipment to U.S. Oil and Gas Plays. Have we seen Calfrac move all of its operations to the United States?

**Mr. Uebelein:** I don't have a categorical answer to that, but I feel very strongly that that's not the case.

**Mr. Cyr:** Well, it appears that a significant portion of Calfrac's fleet has moved, if not all. My question here is: does this still qualify

underneath the Alberta growth mandate if they have moved all of their operations from Alberta to the United States?

**Mr. Uebelein:** Well, companies like Calfrac are global operators. Our investment certainly doesn't allow us to dictate how they manage their business. We still believe that a well-run, well-managed Alberta-headquartered oil and gas company is good for Alberta.

**The Chair:** Go ahead. I have nobody else on the list right now.

**Mr. Cyr:** Okay. Just being based out of Alberta qualifies you as a candidate for the Alberta growth mandate?

**Mr. Uebelein:** No, that's only one criteria.

**Mr. Cyr:** Okay. Now, we had two investments of \$6.5 million and \$39.9 million to Calfrac to support innovation and environmental stewardship in the oil and gas industry. It sounds like we bailed them out, sir, and then what ends up happening is that they leave town. Are you not reading it the same way?

**Mr. Uebelein:** I'm not privy to those details, so I guess you would say that I'm not reading it exactly that way. I think this is still a very strong Calgary-headquartered Alberta company. They have operations on a global basis. As far as I know, they are not abandoning Alberta.

**The Chair:** Okay. I have somebody else on the list now, Mr. Cyr. Are you finished with your question? We'll come back.

**Mr. Cyr:** Thank you, sir.

**The Chair:** Mr. Sucha.

**Mr. Sucha:** Thank you, Chair. You know, we touched a little bit on environmentally sustainable companies. ESGs are environmental, societal, governance. What's AIMCo's approach on ESGs? Of your approach is this a trend that is happening globally, where smart money is looking at investments not only in terms of absolute returns but in returns to society through responsible investing?

**Mr. Prefontaine:** I'll take that one. This somewhat reiterates Kevin's comments earlier, with a slight reframing in that our general approach is one where we take active ownership quite seriously, ensuring that, as Kevin mentioned, the entities, the companies that we're investing in, have some forward-thinking management teams and that they take these issues seriously. We are very active in proxy voting for a number of reasons, whether that be, say, on pay, diversity on boards, et cetera. We take very active positions when it comes to our investing companies for those very reasons.

**Mr. Sucha:** Excellent. Thank you.

Then, touching on another thing, obviously, one of the things that was underlined as key when we had our throne speech was the subtle comments towards it being International Women's Day. We're all seeing a trend generally of really trying to have more diversity not only in government but at the boardroom table as well. I even reflect on countries like Iceland that have strong mandates towards really having gender equality within companies. With that being said, I imagine this is something that we're seeing a lot of investors looking into. Why do you think it is important that AIMCo supports the Alberta Securities Commission's adoption of NI 58-101, requiring issuers to disclose the number of women on their boards and the process to recruit women to boards and executive officer positions?

**Mr. Uebelein:** Yes. Well, thank you for that question. AIMCo is personally committed to gender parity on its board. We have found that there's a very strong correlation between well-diversified boards and long-term outperformance. Now, I hasten to add that saying that there's a strong correlation does not always prove causality, but we think that it's strong enough that we aggressively try to pursue greater gender diversity in our investing companies. For instance, we will vote against a governance chair of a company with zero women on the board. As Mark said, we will try to engage with our investing companies that we think are underrepresented with women on the board.

I personally two years ago joined the 30% Club. The 30% Club advocates at least 30 per cent women on all public boards in Canada.

**Mr. Sucha:** Excellent.

Thank you, Chair.

**The Chair:** Thank you.

Mr. Ellis.

**Mr. Ellis:** Thank you very much. Mr. Uebelein, it looks like on page 10 of the third-quarter report total fair value of investments decreased quite significantly. Can you maybe provide this committee a little bit of an explanation as to what happened to the real estate portfolio over that quarter, please, as to why it's declined?

**Mr. Uebelein:** I'm sorry. Could you repeat again? I just got to that page.

**Mr. Ellis:** Page 10, third-quarter report. Total fair value of investments decreased over the quarter by – I have a number here – \$421 million, most of which is a decline in real estate. I'm just wondering if you had an explanation.

**Mr. Babineau:** I can comment on that. That's partially disbursement of – AIMCo did some transactions within the real estate portfolio, in which they disbursed some capital back to the province in that case. So we've decreased our holdings in real estate in that time period. There was some decrease in our holdings via sale, and possibly there'd been some decrease in the market value of some of the investments as a result.

**Mr. Ellis:** Okay.

**Mr. Uebelein:** The asset allocation guideline for the heritage fund for real estate is a stated guideline of between 10 and 20 per cent, and as of the end of this quarter we were above 20 per cent. This has been something that we've been working on with the professionals in Treasury Board and Finance, to bring it back within that 10 to 20 per cent band.

**Mr. Ellis:** Thanks for the explanation.

Thank you.

**The Chair:** Thank you.

Mr. Cyr.

**Mr. Cyr:** Thank you. To get back to Calfrac. Now, obviously, I have not been a clear fan of this 3 per cent growth mandate that has been put on by the Finance department. Was there interference into buying this specific investment for the Alberta growth mandate?

**Mr. Uebelein:** No.

**Mr. Cyr:** Thank you. That's a very clear answer.

Now, what we've got here is that the minister, Minister Ceci, has stated – bear with me here – “Alberta’s Heritage [Trust] Fund investments are supporting job creation and innovation in the renewable energy and natural gas sectors as well as demonstrating Alberta is Canada’s best place to do business and to invest in business growth.” Now, what we’re hearing, though, is that if Fracmaster moves all of its operations to . . .

**Dr. Turner:** Calfrac.

7:30

**Mr. Cyr:** Thank you. I appreciate the member correcting me. Calfrac. All these frac.

If Calfrac move their operations from Canada but still are based out of Alberta, will you need to move them out of the Alberta growth mandate?

**Mr. Prefontaine:** I’ll take that question. We can certainly follow up with you in terms of what’s happened with Calfrac as one of our investment companies. That said, I wish to remind the committee of the criteria that are used to determine whether or not a particular investment will qualify for the Alberta growth mandate, and this is something that’s publically available on the Treasury Board and Finance website. Once the Alberta growth mandate was established, this came as a result of some good discussion between AIMCo and Treasury Board and Finance in terms of setting out what those criteria would be. The list includes whether or not it has the following characteristics: creating jobs in Alberta, building new infrastructure in Alberta, diversifying Alberta’s economy, supporting Alberta’s growth, connecting Alberta’s companies to export markets, or developing subject matter expertise within Alberta.

So when we look at these criteria and apply them to a company like Calfrac – and, again, we can certainly look at and investigate the extent to which assets have moved. When we’re talking about the knowledge-intensive industry, really, that is the oil and gas sector here in Alberta and the development of subject matter expertise, with a company the size of Calfrac, which operates globally within multiple countries, they’re going to develop expertise with those operations and bring that back to Alberta. At this point in time, based on what we know today, it would still continue to qualify under the Alberta growth mandate.

**The Chair:** A follow-up?

**Mr. Cyr:** I have a lot of questions on Calfrac.

**The Chair:** Do you? Okay. Well, let’s hear your next one on Calfrac.

**Mr. Cyr:** All right. AIMCo had given Calfrac – and this is an article written in the *Financial Post*. Rachel Notley’s NDP Gets Gropsey with Alberta’s Heritage Fund: that is the title. AIMCo has given Calfrac Well Services a \$47 million loan with lucrative terms at 9 per cent interest along with options to buy 6.9 million Calfrac shares at a relatively low price. Did we step in and save this company, give them a favourable loan by doing that, and now we’re starting to see them move their operations? It is pretty awful for Alberta if we start to see that this type of investment is what’s happening here, which is why I don’t like our Finance department dictating to AIMCo.

**Mr. Prefontaine:** I will reiterate Kevin’s very clear response of no in terms of: were we directed to do anything specific with any of these investments at any time, especially Calfrac?

Just in terms of framing the question, this investment was not made with the intent of bailing anyone out, with giving away any

capital, and as our chief investment officer, Mr. Dale MacMaster, who unfortunately couldn’t be here tonight, has said a couple of times in front of this committee, the discipline that’s applied through our investment process just wouldn’t lead to that outcome.

In fact, with a number of the assets that we’re currently holding within the heritage fund, some of which are part of the Alberta growth mandate, when we look at what happened with the oil and gas sector, with the price of oil decline and the availability of capital to some companies that still had very sound management teams, we saw a lot of value in these assets and were able to come up with, through some of the expertise that we have in-house, some very unique structures in which to support and continue to support their growth, which were favourable terms for both parties, for AIMCo on behalf of its clients and for, in this particular case, Calfrac.

**The Chair:** Thank you.

Mr. Horne.

**Mr. Horne:** Yeah. Thank you. I noticed that AIMCo’s responsible investing pillars align with the UN principles for responsible investing. You know, there are more than 1,700 signatories from over 50 different countries, which represents approximately \$70 trillion U.S. in assets. That’s quite a bit of money endorsing these principles. I’m wondering if you could talk a bit about those principles, what they are, and why it’s so important to include responsible investing principles to maximize on future returns.

**Mr. Prefontaine:** I’ll speak to the principles and the pillars under which AIMCo operates its responsible investing. I’ll speak at a very high level to them, and then we’re happy to answer any questions about each one of them.

In no particular order, but since we’ve already addressed this, advocacy and collaboration. We’ve talked about the engagement process that AIMCo uses for ensuring that our investing companies are following sound ESG practices.

Reporting and communications. Transparency is not only one of the key pillars here; it’s one of the core values for AIMCo. We firmly believe, as do a number of other companies in our industry, that reporting and communications transparency leads to enhanced outcomes. If people understand what you’re doing and you’re clear with them, it makes for a much easier discussion.

Structure: when you look at the structure of any particular company, the structure of the investments, et cetera, that’s going to be a key factor.

Investment process. Something that we take very seriously – and our chief investment officer has reminded you of this regularly – is the discipline that needs to be applied. So as we go through that and we’re looking and doing all of our due diligence through that process, one of the key factors that we’ll be looking at is what ESG factors management teams have considered.

Engagement process. You cannot emphasize engagement in this space enough.

Kevin, anything to add?

**Mr. Uebelein:** I think I’ve said before that with regard to responsible investing there is a very short list of things that on principle alone we will not do. We’ve mentioned them before. We will not invest in tobacco stocks. We do not invest in weapons of mass destruction. There are a handful of countries which we do not invest in. All the other principles of responsible investing, we feel, are, for long-term investors like AIMCo, win-win propositions. By investing in ways and in companies that we think are thinking responsibly over the long run, we hope and expect for them to outperform their peers that are not looking at the long run.

Hopefully, we're doing some good, some greater good, beyond just merely our investment returns as well.

**Mr. Horne:** Just a quick follow-up?

**The Chair:** Okay.

**Mr. Horne:** Thank you, Chair. Perhaps building on responsible investing and, I suppose, perhaps a bit beyond that, has there been a move to intentionally incorporate full cost accounting in investments, including factors like environmental, social, and sustainability factors?

**Mr. Uebelein:** There's been a steady but not a complete increase in transparency in terms of companies disclosing, but it is not sufficient in many regards. As I said earlier to the vice-chair's question, carbon footprint disclosure is patchy. It's not uniform. We're making slow progress, but it's going in the right direction.

On things like say on pay, which is, you know, under the governance letter of ESG, progress is being made on a global basis, but frankly Canada is a little bit behind. It's, frankly, the only developed market where the securities laws do not require public companies to disclose and have some say-on-pay proxy vote, even if it's nonbinding.

7:40

**The Chair:** Okay. Thank you.

**Mr. Ellis:** I'm just curious. Have the Brexit negotiations affected your holdings, and if so, is it reflected anywhere in the report? Maybe you can elaborate, again, if Brexit has affected you guys in any way.

**Mr. Uebelein:** Well, certainly, Brexit has impacted U.K. stocks and in one sense has impacted all of us, but with regard to its impact on AIMCo vis-a-vis the benchmarks that we invest in, we don't sense anything meaningful long term. We have a large exposure to London City Airport, for instance. London City Airport is still operating very close or within a band of its long-term performance objectives. That would have been one that we would have kept a very close eye on: do we see lower levels of activity going through that airport, and do we see softness in the revenue numbers? We just haven't seen it yet. Likewise, we have real estate exposure to the U.K. as well as the continent, and we can't parse out any direct impact, either positive or negative, to that portfolio.

**Mr. Ellis:** Thank you.

Regarding investment that AIMCo might have in the United States, are you still, I think, regarding our previous conversations, just being cautious, or are you in any way following what appears to be kind of the bull market in New York?

**Mr. Uebelein:** We are cautious both on the fixed-income side and, I would say, on the equities side. By that I mean that on the fixed-income side, as we see rates rising, we are slightly short on duration, which would position us for higher interest rates to be able to benefit from that position. We are still exposed to credit risk on the fixed-income side, but we've, again, by and large, shortened the duration of that credit risk because we see spreads, credit spreads – in other words, what borrowers are able to achieve in excess of the risk-free rate – getting lower and lower. So very little room for default risk, if you will, when spreads are very tight and interest rates are very low.

On the equities side, as I said in my opening remarks, we see that prices are very high and that profit margins, if I can generalize, are near the top of their range. Is there additional room for companies

through increased efficiencies or growth to improve their earnings? Yes, there is some, but typically the way P/E ratios expand is through expanded growth of earnings or greater performance. We're cautious. When we see volatility, though, that gives us an opportunity to buy on the dip.

**Mr. Ellis:** Thank you, sir.

**The Chair:** Okay.

Mr. Cyr.

**Mr. Cyr:** Thank you, again. Now getting back to Calfrac. I know you're shocked to hear this. We've heard that it's possible to still be a part of the Alberta growth mandate and actually have no impact to jobs or infrastructure or the economy or Alberta's growth or exporting to markets. You were able to commit to having a list of the 28 companies that are currently vested into this Alberta growth mandate. When you provide that list, is it possible for you to actually put what criteria each company fits? We've got (a) to (f) here. You were nice enough to read out that wonderful list. Calfrac, for instance, would only be criteria (f). Would you be able to show us what criteria each one of those companies fits into?

**Mr. Prefontaine:** I think we'd be somewhat challenged to do that, not because we don't have a process as much as those criteria that would apply to any particular investment at any given time are going to be a function of the strategy that that particular company or asset has been using. As we've seen, for instance with Calfrac, as you've pointed out, they've obviously had a change in strategy with the deployment of at least some assets elsewhere. So the criteria that might apply at any given point in time may be different than the criteria that would apply at the point in time where we decided to make that investment.

**Mr. Cyr:** Would you be able to give us, when you make the list, what qualifications they fit at that time, then? We won't hold you to it afterwards or before it. I'd just like to know where they fit on (a) to (f) for the list that you guys provided because I believe that you're probably not going to have any one of those companies create jobs in Alberta. This is one thing that I have been repeatedly asking: are we creating jobs through this Alberta growth mandate? The reason is that our Minister of Finance is going around telling everybody that he's creating jobs, more or less, with the Alberta heritage trust fund through this 3 per cent. Can you commit to giving us that list, sir?

**Mr. Prefontaine:** We could commit to having a look at what's in the realm of possible. What's coming to mind for me, for instance, is that part of what's in the Alberta growth mandate, you'll see when we provide the list, is some commercial real estate development. What it was is some land that AIMCo had purchased earlier that we're now in the process of developing, and, in fact, as a result of that development there would be job creation. So there will be some of that, absolutely, within this. What we can do is make an attempt to satisfy your request, working with our friends at Treasury Board and Finance to come up with something that might be satisfactory.

**The Chair:** Go ahead.

**Mr. Uebelein:** We'll take back your request and work with our friends at Treasury Board and Finance to try to figure out what to do with that request. But I personally fear that your questions imply or are meant to suggest that the calculus that we're using is more detailed and more specific than, frankly, it is. We feel that when we

find well-run Alberta companies that we can deploy capital in, good things are going to happen, both for our clients, not just the heritage fund but for our pension funds, for those companies, and for Alberta as a whole.

There is no specific calculus that says: for every dollar we expect X number of hires. But I also have mentioned in previous conversations, I think directly with you, Mr. Cyr, that a job saved is as good as a new job created. So when there are oil and gas companies that are seeking capital injections, in many cases it's saving jobs that might otherwise have gone, and I view that as creating jobs, frankly. But the calculus is not going to be there. I can't draw a straight line.

**The Chair:** Mr. Cyr, we're going to move around the table here and give you time to load up on some more Calfrac questions.

Ms Fitzpatrick.

**Ms Fitzpatrick:** Thank you very much for being here tonight and providing the information you have. You had mentioned earlier, Mr. Uebelein, the low interest rates. How has AIMCo hedged against what many seem to think will be a rising interest rate environment?

**Mr. Uebelein:** Well, as I said earlier, we are positioned modestly at the low end of the duration curve. It's a bit of technical talk. We need to have a target duration to meet our benchmark, and if we're on the short end of that duration, then all other things being equal, including the shape of the yield curve, when rates rise, we will have gains against the benchmark.

7:50

Further, I would say that we benefit from having net inflows of capital. We continue to have typically more injections of capital into AIMCo than we have cash payments out, for instance, to either pay the heritage fund or for pension obligations. So as new cash comes in and interest rates rise, we're able to buy into these rising interest rates.

**Ms Fitzpatrick:** Okay. So the Bank of Canada right now has paused on rate tightening for today, anyway?

**Mr. Uebelein:** Yes.

**Ms Fitzpatrick:** What impact do you see if the Bank of Canada holds the line on interest rates or increases them? How will this affect the fixed-income portion of the portfolio?

**Mr. Uebelein:** Well, I think, Mr. Poloz has tried to be very transparent on the line that he's walking right now. He's signalled that interest rates will be rising eventually. He's been quite explicit in saying that no one has ever quite had to unwind, on a global basis, interest rates like is happening now. So how that will impact the economy, particularly a Canadian economy that has quite a bit of household borrowings and leverage in it, is something that they're going to have to watch very closely. In other words, the risk of raising rates too quickly would be that it has too fast a dampening impact on the economy. On the other side of the equation, if he doesn't raise interest rates fast enough, inflation is the risk because he's in essence supercharging an economy that doesn't need to be supercharged any longer.

I think one of the other reasons that he's being very cautious is because of the trade talks that are going on right now with the U.S. It's possible that if those take a negative turn for Canada, it would be inappropriate to raise rates.

**Ms Fitzpatrick:** Could I have one more?

**The Chair:** Sure.

**Ms Fitzpatrick:** Okay. There's been a bit of a drop in the Canadian dollar recently. How much is that due to the Federal Reserve looking at potentially more rounds of rate tightening than perhaps the Bank of Canada? What challenges and opportunities will that present?

**Mr. Uebelein:** I think the recent softening of the Canadian dollar probably is driven by a lot of things, but the first two that I would point to would be this general view that the U.S. will be raising rates more quickly than Canadian rates. That typically results in the currency where rates are rising faster strengthening against the one that isn't. We saw the new Federal Reserve Chairman Powell raise rates today, in fact, and the consensus is that there will be three, possibly four more before the year is over. The other one, again, is the trade talks, that if there's not a consensus, if there's a risk that the trade talks could dampen economic growth in Canada, that might have a dampening effect on the Canadian dollar as well.

Our non-Canadian dollar investments are typically hedged back into the Canadian dollar. So I wouldn't say that there's a trivial impact on AIMCo, but it is not a meaningful impact, at least not volatility in the short run. It has virtually no impact at all.

**Ms Fitzpatrick:** Okay. Thank you.

**The Chair:** Thank you.

**Mr. Clark:** I won't directly ask about Calfrac. I could, but what I really want to drive at is just the Alberta growth mandate. Just so I'm clear, if you don't mind, I'm going to ask about three or four kind of quick back-and-forth questions, if that's all right, Mr. Chair.

The Alberta growth mandate may invest up to 3 per cent of the heritage fund, and if my simplistic math is correct, 3 per cent of the heritage fair value of assets of \$17.5 billion is about \$525 million. Fair?

So given that you've invested about \$349 million according to this report, we're at about 2 per cent. What that tells me is that given this growth mandate in 2015 you didn't immediately run and say: we have \$525 million to invest, so we'll invest it today. Fair?

When you're making these investment decisions, you apply many criteria. Really, what I want to drive at here is that irrespective of whether it's Calfrac or any of the other 27 investments that appear to have been made, those investments need to meet criteria. Now, the Alberta growth mandate criteria add another set of criteria, the (a) to (f) that you've talked about, and they also must meet the long-term growth objectives of the heritage fund. Is that fair to say?

**Mr. Uebelein:** Yes.

**Mr. Clark:** So I guess that while I appreciate where my hon. colleague is perhaps trying to go with this – I have to say, as I said in the last committee meeting, that I had concerns initially about, frankly, the politicization of AIMCo and in the management of the heritage fund, but it appears that those fears haven't been realized, I would say, at least in my estimation. You don't necessarily need to respond to that, but I just wanted to get that on the record.

My understanding of how you make investment decisions would guard against blind Alberta Homerism just simply because a minister said that you may invest up to 3 per cent. You've perhaps applied a bit of a different criteria lens to how you make some investment decisions, but those are not, in my view, reckless in any way, at least that I can observe so far. Feel free to comment on that or not.

**Mr. Uebelein:** We would strongly agree with that statement. You know, in general we're looking to make terrific investments globally. Our track record has been strong, and we hope to sustain that track record. When we see what we think is a good investment in Alberta, in addition to evaluating the investment purely on its return merits, we ask ourselves: does this particular opportunity also meet the broad objectives, without detailed calculus, frankly, of the 3 per cent overweight? That's how I think of it. When the answer is yes, then the opportunity for us to perhaps increase the size of that investment because of the overweight presents itself to us. Remember that in I think every case currently when an investment has been made and earmarked as part of the 3 per cent allocation, our other clients have also participated in it, so there's an amplification effect, if you will, in each one of those investments.

**Mr. Clark:** Thank you.

**Mr. Uebelein:** I'd also quickly add. I know we're focusing on the 3 per cent. AIMCo has always been an active investor in Alberta. At present I think there's about \$1.5 billion of exposure to Alberta in the heritage fund alone, and those are investments that AIMCo made one hundred per cent of its own volition. It had absolutely nothing to do with any mandate by the government. That represents roughly 8 per cent of the heritage fund. We know that Canada is about 2 per cent of the overall global economy, and Alberta is about 15 per cent of that. So if we were equal weighting investing in Alberta, we would hold something close to \$70 million of exposure to Alberta as opposed to the \$1.5 billion that the heritage fund currently has. None of that is driven by a growth mandate or anything else. It's just our view of the strongest investments on a global basis.

**The Chair:** Thank you. That was interesting.  
We're going to go to Dr. Turner.

**Dr. Turner:** I'll cede to Mr. Cyr. I'm sure he's chomping at the bit.

**Mr. Cyr:** Getting back to Calfrac. I wholeheartedly agree with every word you just said, that if it's the right investment at the right time, you should put your money there. This is why I've been actively against this 3 per cent growth mandate from the very beginning. I believe that it interferes with your independence.

Now going back to your criteria. I'm not looking for calculations, sir. All I'm looking for is (a), (b), (c), (d), (e), or (f), that's what this specific investment fits into. We can debate later whether it fits into (a) or not, but I will say that right now it's important that we're going through this list and actually ensuring that what the minister is saying is accurately reflected in the investments that you've got. I think that that's a reasonable thought.

Now, Mr. Epp, will you be working closely with Mr. Uebelein to facilitate this list, sir?

8:00

**Mr. Epp:** Absolutely.

**Mr. Cyr:** Okay. Thank you, sir.

**Mr. Epp:** But ultimately they will have the information because they made the investment decisions. We took no part in that.

**Mr. Cyr:** Fair enough. Fair enough.

How long a time frame are we looking at to have this list to the committee?

**Mr. Uebelein:** I would say that, as is the case, I believe, with all questions from the committee, we work to have a response before the next standing committee meeting.

**Mr. Cyr:** So we're looking at probably three months from now, then?

**Mr. Uebelein:** No later than.

**Mr. Cyr:** That seems to be a long time for 28 investments. Can we get a commitment of 30 days, sir?

**Mr. Uebelein:** I will go back and do everything I can.

**Mr. Cyr:** Okay. Thank you, sir.

**The Chair:** Okay. Thank you.

**Dr. Turner:** I've been sitting here just scratching my head. I think we as Albertans should be really congratulating AIMCo and the Treasury Board and actually by extension the Auditor General, who keeps an eye on both of those entities. Your returns have been fantastic. Rather than sort of inquiring as to whether you're meeting your mandate, I think we should be celebrating the return, 38 per cent on those two investments you made. I take it that's total return. That would include capital gains, interest if any earned, and warrants exercised.

**Mr. Uebelein:** Yes.

**Dr. Turner:** It is really very good. From the point of view of the regular Albertan, the everyday Albertan, who's worried about the safety of their pensions and worried about the future of Alberta through the Alberta heritage trust fund, to see those kinds of returns really does need to be commended.

I mean, even the Calfrac – I'm sorry, Chair; I'm going to bring it up again – investment is doing very well. I hear that Calfrac is actually hiring in Calgary, not just administrative staff; they're hiring people with good jobs, who are contributing to this province and paying taxes, helping to bring our deficit down. I'm sure that among the I guess it's net 26 active investments that you have, there might be many, many more of those stories.

I do want to come back to this total return concept because I think it's been missed by the folks across the way. Nine per cent interest is probably four times higher than you might get on a so-called safe investment. I understand there's been a reasonable capital gain on the Calfrac investment to date, that in the total return might get up there. So the folks that count on us to monitor how the heritage trust fund is doing I think should be reassured that the growth mandate is actually working to their benefit. I wondered if you had any comments.

**Mr. Uebelein:** Well, first, thank you for your kind words. You know, our aim is to try to please all of our clients. Sometimes, even when our returns are strong, our clients have other issues with us, and we have to just grind those out. We had three client meetings last week. Those clients enjoyed returns between 10 and 13 per cent, yet one of them still had quite a lot of grousing to do. We want to do whatever we can to make them fully satisfied.

With regard to the growth mandate I don't know if I have much further to say other than that we stand by those investments. We've made those investments completely independent of government. Time will tell how that whole portfolio performs, but up to now it's looked very good.

**Dr. Turner:** Well, thank you.

That's the end of my questions.

**The Chair:** Great. Thank you.

Mr. Cyr, we're going to make this the last question in the interest of time.

**Mr. Cyr:** Fair enough. This one isn't about Calfrac.

What factors for a rate of return did you consider when investing 49 per cent in Enel Green Power?

**Mr. Uebelein:** That is a good question, that I will be able to answer in general terms, and if you'll allow me a minute or two to look at my notes, I might be able to add a little more. You know, in general these projects are very long-term infrastructure projects. They fit in a particularly strong place for many of our clients because they present sort of a stable return that frequently is also linked to inflation, and that's a unique hybrid return that infrastructure, particularly, is very strong at helping. So it's a strong element of a good asset mix.

With regard to these wind assets themselves, more generally speaking, you know, our infrastructure team would be looking at the projected risk and the projected cash flows, discounting those back at what we think is the acceptable rate for that very complex basket of risks. That includes some construction risk on this particular project, as only a little less than half of these wind farms are actually completed – it's sort of a combination of green- and brownfield – as well as environmental risk. In other words, will pilcher creek be as windy 30 years from now as it is today? So it's a very complex sort of calculus that goes into it, and then using basically a discounted model against what we think the adequate return is for that basket of risks.

**Mr. Cyr:** One last question, sir?

**The Chair:** Yes.

**Mr. Uebelein:** I think it's pilcher creek, isn't it?

**Some Hon. Members:** Pincher Creek.

**Mr. Uebelein:** Pincher. I'm sorry. I know it's the only place in Alberta that's more long-winded than the Legislature.

**The Chair:** We resemble that remark.

**Mr. Cyr:** What a great place to close.

Now, with your 49 per cent stake, sir, have you considered if there's a potential liability for reclamation in the future?

**Mr. Uebelein:** I don't know. I know we try to consider all risks, but I'm not close enough to that diligence to be able to answer that categorically.

**Mr. Cyr:** Would you be able to answer that in writing, sir?

**Mr. Uebelein:** Yes.

**Mr. Cyr:** Thank you.

**The Chair:** All right. Great. Thanks.

That will bring this part of the agenda to an end. Would a member like to move that the committee receive the third-quarter report?

Mr. Clark. Moved by Mr. Clark that

the Standing Committee on the Alberta Heritage Savings Trust Fund receive the 2017-2018 third-quarter report on the Alberta heritage savings trust fund.

All in favour? Any opposed?

Seeing none, that is carried.

From our January 16, 2018, meeting members will recall that section 6(4)(c) of the Alberta Heritage Savings Trust Fund Act requires the committee to report to the Legislative Assembly "as to whether the mission of the Heritage Fund is being fulfilled." The draft of this report to the Assembly has been prepared and was posted to the committee's internal website on February 12, 2018. At this time I would like to open the floor for any discussion on this draft report.

Seeing none, would a member like to move that the committee approve the report? Dr. Turner. Moved by Dr. Turner that the Standing Committee on the Alberta Heritage Savings Trust Fund approve the draft annual report of its activities from 2017.

All in favour? Any opposed?

Seeing none, that is carried.

We'll talk about the 2018 public meeting at this point. As members are aware, section 6(4)(d) of the Alberta Heritage Savings Trust Fund Act requires the committee to hold a public meeting on the investment activities and results of the heritage fund. As was discussed at the committee's January 16, 2018, meeting, the 2017 public meeting had its largest in-person audience in several years and also drew participation from many people across our province. The public meeting has traditionally been held in weeks prior to the fall session, although it does not necessarily have to be done at this time. Since 2011 public meetings of the committee have been held in Edmonton, and since 2015 they have been held here at the Edmonton Federal Building.

The committee will need to decide on a date and location for the public meeting. Last year's meeting was held on October 26, before the start of fall session. As members of the committee know, the Assembly is scheduled to reconvene the fall session on October 29, 2018. Therefore, the deputy chair and I would like to recommend that this year's public meeting be held on Thursday, October 25, 2018, from 7 to 9 p.m. Any comments or questions about this?

**8:10**

Okay. Seeing none, would a member like to move that this will be the date? Ms Fitzpatrick. Moved by Ms Fitzpatrick that the Standing Committee on the Alberta Heritage Savings Trust Fund schedule the 2018 annual public meeting for Thursday, October 25, 2018, from 7 to 9 p.m. at the Edmonton Federal Building.

All in favour? Any opposed?

Seeing none, that motion is carried.

Also, as you know, members, in preparation for the public meeting it is common for the committee to direct the Legislative Assembly Office communications to prepare a plan to communicate the goals and pertinent information about the meeting to Albertans. Danielle Antoniuk with Legislative Assembly Office communications is here if members have any questions for her about the communications plan. I should say that if not, then you will move forward with it, correct? Yes.

Seeing none. Okay. Would somebody like to move that the draft communications plan for 2018 be prepared? Mr. Sucha. Moved by Mr. Sucha that

the Standing Committee on the Alberta Heritage Savings Trust Fund direct Legislative Assembly Office communications to prepare a draft communications plan in support of the 2018 public meeting.

All in favour? Any opposed?

Seeing none, that motion is carried.

We will move on to other business. Hon. members, I would just like to note for the record – it was discussed earlier, but I will note it anyway – that the committee has received written responses to

outstanding questions from the January 16, 2018, meeting from both AIMCo and the Ministry of Treasury Board and Finance, and they have been posted on the committee's internal website.

At this time I'd ask if there is any other business.

Seeing no other business, the next meeting: we'll put out some communications to see what the best day for the next meeting is.

With that said, would somebody like to move adjournment? Dr. Turner. Moved by Dr. Turner that this meeting be adjourned. All in favour? Any opposed? Seeing none, that motion is carried.

This meeting is adjourned. Thank you.

[The committee adjourned at 8:13 p.m.]



