Legislative Assembly of Alberta

The 31st Legislature
First Session

Standing Committee
on the
Alberta Heritage Savings Trust Fund

Monday, June 24, 2024
1 p.m.

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Alberta Heritage Savings Trust Fund

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

Boitchenko, Andrew, Drayton Valley-Devon (UC)
Bouchard, Eric, Calgary-Lougheed (UC)
Brar, Gurinder, Calgary-North East (NDP)
Hunter, Grant R., Taber-Warner (UC)
Kasawski, Kyle, Sherwood Park (NDP)
Kayande, Samir, Calgary-Elbow (NDP)
Lovely, Jacqueline, Camrose (UC)*
van Dijken, Glenn, Athabasca-Barrhead-Westlock (UC)**
Wiebe, Ron, Grande Prairie-Wapiti (UC)

* substitution for Tany Yao
** substitution for Andrew Boitchenko

Office of the Auditor General Participants

W. Doug Wylie	Auditor General
Tim Lamb	Principal

Support Staff

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

Standing Committee on the Alberta Heritage Savings Trust Fund

Participants

Ministry of Treasury Board and Finance
Brittany Jones, Director of Investment Strategy, Capital Markets
Stephen J. Thompson, Executive Director, Capital Markets

Alberta Investment Management Corporation
Amit Prakash, Chief Fiduciary Management Officer
Marlene Puffer, Chief Investment Officer

1 p.m. **Monday, June 24, 2024**

[Mr. Rowswell in the chair]

The Deputy Chair: I'd like to call the meeting of the Standing Committee on the Alberta Heritage Savings Trust Fund to order and welcome everyone in attendance.

My name is Garth Rowswell, MLA for Vermilion-Lloydminster-Wainwright and deputy chair of this committee. I'd ask that members and guests at the table introduce themselves for the record, and then I will call on those joining by videoconference. We'll begin to my right.

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

Dr. Puffer: Marlene Puffer, chief investment officer, AIMCo.

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

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

Ms Jones: Brittany Jones, Treasury Board and Finance.

Mr. Lamb: Tim Lamb, principal, office of the Auditor General.

Mr. Kasawski: Kyle Kasawski, MLA for Sherwood Park.

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

Mr. Koenig: Good afternoon. Trafton Koenig with the Parliamentary Counsel office.

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

Mr. Huffman: Warren Huffman, committee clerk.

The Deputy Chair: We'll now go to those joining virtually. Please unmute and introduce yourself when I call your name. Member Bouchard.

Mr. Bouchard: Eric Bouchard, Calgary-Lougheed.

The Deputy Chair: Member Brar.

Member Brar: Hi, everyone. My name is Gurinder Brar, MLA, Calgary-North East.

The Deputy Chair: Okay. MLA Lovely.

Ms Lovely: Hello, everybody. MLA Jackie Lovely from the Camrose constituency. I'm in the parkade, and I'll be joining you in person momentarily.

The Deputy Chair: Okay. Thank you.

MLA Hunter.

Mr. Hunter: MLA Grant Hunter, Taber-Warner.

The Deputy Chair: MLA van Dijken, if you're still there. Okay.

All right. For the record I will note the following substitutions: MLA Lovely for MLA Yao and MLA van Dijken for MLA Boitchenko.

We have a few housekeeping items to address before we turn to the business at hand. Please note that the microphones are operated by *Hansard* staff. Committee proceedings are live streamed on the Internet and broadcast on Alberta Assembly TV. The audio- and videostream and transcripts of the meeting can be accessed via the Legislative Assembly website.

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Okay. Here we are. A draft agenda was made available to all members. Does anyone have any changes or additions to the draft agenda? Anyone? Anyone online? No. Okay.

If not, would someone like to make a motion to approve the agenda? Member Kasawski. Any discussion?

An Hon. Member: It's a good agenda.

The Deputy Chair: It's a good agenda. Right on.

All in favour in the room? Any opposed? Online, all for? Any against?

MLA van Dijken, please introduce yourself. We missed you . . .

Mr. Huffman: Sorry. You need to say that that motion has been carried.

The Deputy Chair: Okay. The motion has been carried. Sorry about that, everybody.

Go ahead, MLA van Dijken.

Mr. van Dijken: It's Glenn van Dijken, MLA for Athabasca-Barrhead-Westlock.

The Deputy Chair: Okay. Thank you.

Approval of minutes. Next we have draft minutes from our April 22, 2024, meeting. Do members have any errors or omissions to note?

If not, would someone like to make a motion to approve the minutes? MLA Wiebe. Any discussion? All in favour in the room? Any opposed? All in favour online? Any opposed? That is carried.

Hon. members, we now turn to the 2023-24 annual report of the Alberta heritage savings trust fund. The committee clerk received a draft of the annual report from Treasury Board and Finance on June 18. That report was made available to committee members on the internal website. I'll note for everyone's information that this report is confidential until it is approved by the committee.

Before we hear from our guests, I would like to briefly review the committee's mandate with respect to the fund's annual report. As stated in section 6(4)(b) of the Alberta Heritage Savings Trust Fund Act, one of the functions of this committee is to approve the fund's annual report. Furthermore, section 16(2) of the act requires that, after the committee approves the annual report, copies of the report be furnished to all Members of the Legislative Assembly and the Clerk of the Assembly on or before June 30, after which the report shall be made public.

At this time I would ask Treasury Board and Finance officials to provide an overview of the annual report, followed by remarks from AIMCo, and then we will open the floor to questions from the committee members.

Go ahead. Take it over.

Mr. Thompson: Thank you, Mr. Chair. Good afternoon, committee members and guests. My name is Steve Thompson. I'm the acting assistant deputy minister for the treasury and risk management division at Treasury Board and Finance. I'm joined today by my colleague Ms Brittany Jones, who is our director of investment strategy. We are here to present the heritage savings trust fund report for ’23-24.

Before I go further, I would like to just clarify and apologize to the committee. You were inadvertently sent an incomplete draft on the 18th. It contains several spelling and grammatical errors. You should have received today a corrected version from the clerk. None of the information presented to you in the early draft has changed with respect to financial reporting. It’s all been reviewed and approved by the Auditor General. It was a clerical error somebody sent from my team, which is why I’m apologizing. My team sent an early draft that had not had those spelling and grammatical errors corrected, but all of the information pertinent to the performance of the fund and on the financial statements has been reviewed and approved by the Auditor General and is correct. So my apologies for that, and I hope we can proceed with the correct report this afternoon.

As of March 31, 2024, the return of the fund, net of fees, was 8.1 per cent compared to a benchmark return of 9.8 per cent. The value of the fund increased by $1.7 billion year over year to $22.9 billion, which once again established an all-time high for the fund. The growth was primarily driven by government’s decision to retain the heritage fund’s total net investment income of $1.89 billion, off-set by $179 million in unrealized losses within the fund. The positive returns have once again been propelled primarily by strong public equity markets, with equity investments producing a gain of $1.7 billion during ’23-24. This is a welcome reversal from last year’s $123 million loss in this investment class.

Fixed-income yields have also been contributing positively to overall performance this fiscal year, producing income of $162 million during the fiscal year due to a higher interest rate environment. Inflation-sensitive and alternative investments contributed $188 million in earnings over the same period, an increase of $39 million year over year, as investments in these asset classes produce consistent cash-flow streams due to the ability to pass inflation increases downstream.

For the fiscal year, although the fund achieved an 8.1 per cent return, its performance lagged its passive benchmark return by 1.7 per cent over the year. Despite the challenging conditions the fund posted strong gross earnings of $2 billion, with reported net income of $1.9 billion after investment expenses of $172 million. This is a significant increase compared to last year’s fiscal net loss of $114 million.

Over the longer term the heritage fund has two main performance targets. The first is to outperform a real return target of the Canadian consumer price index plus 450 basis points, and the other is to outperform a hypothetical passive management benchmark by a margin of 100 basis points. Both are measured over a rolling five-year period. Inflation has driven CPI plus benchmarks higher, and this impacts both the real return target and the passive benchmark. Alternative assets such as private equity, infrastructure, and renewable resources have seen a CPI target benchmark that produces high-return expectations as inflation persists. However, note that inflation, particularly in Canada, has begun to level off, as evidenced by the Bank of Canada announcing a cut to its key interest rate on June 5, the first such decrease since March of 2020.

Over five years the heritage fund has returned just 6.4 per cent. The passive benchmark returned 6.5 per cent over the same time period, leading to an active management return of negative eight basis points, which is 108 basis points lower than the 1 per cent target. At the reporting date the CPI plus 450 basis points real return target was 7 per cent. Over the past five years the fund has achieved a return that is 60 basis points lower than the real return target.

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Lastly, for fiscal ’23-24 the fund generated $171 million in expenses, which is 29 per cent, or $38.6 million, higher than the investment expenses incurred last year and 16 per cent higher than budgeted for.

This concludes my prepared remarks here. Prior to taking your questions, I will cede the floor to my colleagues from AIMCo for their discussion.

Mr. Prakash: Great. Thank you. Thank you, Mr. Thompson, and good afternoon, all. It’s a pleasure to be here again, especially on a special day. Outside, as we walked here, it was a sea of Oilers jerseys everywhere, so I’d be remiss in not giving a shout-out to our home team.

I’ll spend just a couple of minutes talking about three things on the business front with AIMCo, which is really important, from our perspective, and certainly particularly in order to drive performance for our clients. Firstly, I’ll give you an update on the business transformation and, again, a quick reminder in terms of what we are doing on that front. Secondly, just for context I’ll provide you a bit of colour on what we’re doing on the product platform, which builds long-term value for our clients. And then, lastly, I’ll close out my remarks with a quick summary of the client feedback that we’ve received on our latest client survey.

Firstly, in our previous updates you’ve heard me talk about business transformation, and what that is is our ability to utilize data and technology more efficiently to make our operating platform more efficient, to utilize technology for better analytics, for better risk management, and ultimately future-proof AIMCo’s capabilities over the future term. Equally important to note is that this is a business-led multiyear program rather than simply a technology enhancement in that we were also reviewing process changes that are really, really important to ensure that we are using the technology in a more effective and efficient manner rather than building technology, applying technology to processes that are inherently not suitable for automation.

We are at this stage – we’ve been in the planning stage for the last six to nine months. We also have been going through a vendor selection process and are close to finalizing that and expect to actually start the program work later this year, with a goal to go live towards the end of next year. It is really, really important, and we are both excited as well as focused on ensuring that the program gets delivered on time, on budget, and within the scope that we’ve described and planned for.

Secondly, one of the things that we’ve embarked on over the last three years is working closely with our clients on the investment solutions that are on the platform that the clients – and then we work with them to ensure that those solutions are appropriate and fit for purpose for the investment objectives that our clients have, including the heritage fund portfolio. Towards that end, we’ve just approved changes to the private equity benchmark, which will make it more appropriate from a variety of perspectives. We’re in the implementation of the long bond solution that we have for our clients. Likewise, we’ve done some updates to real estate. So all of that to say that each of these activities works towards building a product and solution platform that is more appropriate and forward looking for our clients.

And then, lastly and quickly, in 2022 we started to collect feedback from clients twice a year, surveying them on a variety of topics. It’s roughly about eight areas that we seek feedback on, anywhere from our responsiveness, reporting, product platform, and more generally whether we’re headed in the right direction in terms of our interactions with clients. Pleased to report that across each of the dimensions we received the high scores over this two-and-a-half-year period, so that was very, very encouraging, but equally cognizant that, like any service provider, there is still a range of areas that we need to get better at. The commitment is to say thank you for the feedback but, as well, that we remain focused on delivering value to our clients.

With that, I will conclude my opening remarks. Happy to take the questions.

The Deputy Chair: Okay. Thank you very much, everybody.

We will now proceed to questions. Just to let everyone know, we'll go back and forth until we run out of questions, but around 2:30 we might wrap it up just because we've got other business to deal with. So that'll be the plan, but we'll just keep going back and forth.

We'll start with MLA Wiebe. Go ahead.

Mr. Wiebe: Well, thank you, Mr. Chair, and thank you to Treasury Board and AIMCo for being here. I'd like to begin by directing your attention to page 3 of the report. I'm pleased to read that "the Alberta Heritage Savings Trust Fund grew to $22.9 billion in 2023-24." It's an increase "of $1.7 billion over the prior fiscal year. This is the largest the fund has ever been since [it's been] established," so that's a good-news story. I also see on page 3 that's a "deliberate and meaningful action [that's been] taken by the Alberta government to grow the Heritage Fund." As a result, it's

> a $7.2 billion increase in the fund's value since the end of the 2020-21 fiscal year. In Budget 2024, an additional $2 billion was allocated to the Heritage Fund. With this contribution, the value of the Fund is expected to surpass $25 billion in the upcoming year.

I was hoping you could elaborate on some of the actions taken to grow the fund in '23-24 and speak to the projected figure of over $25 billion by the end of the upcoming fiscal year.

Mr. Thompson: Sure. I'm happy to take that one. Thank you. Certainly, all of the growth numbers that we're seeing in the last fiscal year and projected into the next are due to the decision to keep earnings within the fund. The $1.7 billion by which the fund grew this year under our old regime would have been siphoned off into general revenue and become part of the fiscal balance. Right now it would be used to repay debt, but it certainly would not contribute to the growth of the heritage fund. The additional $2 billion that will be deployed during the current fiscal year will take us to $25 billion, so the minimum size for the fund, assuming no major losses in the fund, will be $25 billion. On top of that, there will be investment returns as well, and the important thing to remember is that that additional $3.7 billion will be earning and will be making a return on investment as well. So as we retain more and more earnings in the fund, we will see compounding rates of return on what is left behind there.

Mr. Wiebe: Thank you.

The Deputy Chair: Okay. MLA Kayande.

Member Kayande: Yeah. Just a quick question. I just wanted to, through the chair – I heard something about resetting private equity benchmarks. I was just wondering if there's more description, more colour that could be offered around that.

Mr. Prakash: Yeah. Happy to speak to that. Thank you for the question. We review our benchmarks in consultation with clients as appropriate, every few years, and this time it was the turn of private equity. In particular, we've had CPI plus benchmark, or inflation-level benchmark, for private equity, and whilst from an expected-return perspective over the long term – that's one of the ways that the industry uses – the weak link in that structure is that it doesn't really reflect any of the risks that are embedded in an equity-type benchmark. The CPI plus benchmark normally looks close to a flat line and barely has risk, if you will, just from a volatility perspective of 1 or 2 per cent relative to the actual risk of this asset class, which is typically north of 12, 13 per cent or thereabouts. Therefore, from that perspective, that was one of the reasons that we started to look at the benchmark, to see if there's a better way to specify the benchmark whilst largely leaving how we invest in the asset class as is. So that was one reason.

1:20

One of the other reasons, one of the other implications of making this change is potentially that the currency hedging that was done within the old previous benchmark won't be the default solution going forward. Why that is important is that, particularly for an asset class that is inherently long horizon, putting on a currency hedge on balance is typically something that you don't see, so that's another benefit the clients will get over time from making that change. So those are some of the things, considerations.

Member Kayande: What does that mean from an – I'm trying to figure out: how will that change how you invest and how you report the results? Like, will the private equity benchmark then actually be – will that benchmark return be going up, or will it be coming down, or will it be more volatile? I just want a little more clarity on that, if you can.

Mr. Prakash: Absolutely. The benchmark is based on public markets, so it will be MSCI World plus 200 basis points. Effectively what that does is that it will increase the risk of the portfolio in a traditional sense, especially over short periods of time. As I said, that will in some ways align it somewhat closer to private equity though there isn't really a perfect benchmark given the nature of the asset class, but it moves in the direction that it would be comparable. What it doesn't do, simply by changing the benchmark whilst leaving our investment approach and investment philosophy, is that in of itself this is not a return-enhancing change. This is simply changing the benchmark. The investment strategy remains as is, other than at the margin to ensure from a foreign-exchange perspective that we are implementing it consistent with the benchmark.

The Deputy Chair: Thank you very much.

Well, just so everyone knows, we can ask a question and have one follow-up, and then just get your next question if you want to carry on from there.

Our next question will come from MLA Bouchard. Go ahead.

Mr. Bouchard: Thank you, Mr. Chair. I'd like to turn to page 11 of the report. That deals with the investment performance of the fund. Looking at the total fund performance table, I see the real return target for '23-24 was set at 7.9 per cent, which counts for CPI plus 4.5 percentage points. However, I also see that the passive benchmark return was set at 9.8 per cent. Can you share with the committee why there's such a discrepancy between the real return target and the passive benchmark return?

Ms Jones: Yeah.

Dr. Puffer: You can take it for me.

Ms Jones: I'll start. And then we'll . . .

Dr. Puffer: Sure.

Ms Jones: From an investment-policy standpoint, the benchmarks measure two different things. The CPI benchmark, sort of back to Amit's comment, is very much a static benchmark. This is setting a target for us that is an absolute target over time. This is making sure that the fund is producing returns where we know for sure that this fund is producing value over the long term.

When it comes to the passive benchmark, it's a little bit different because it's linked to fluctuations in the market as well. In that case, we're measuring not so much how the actual total portfolio is doing but how active management is performing over time.

Is there more to that one?

Dr. Puffer: I think you covered it.

The Deputy Chair: Would you have a follow-up there, MLA Bouchard?

Mr. Bouchard: I do. Yes. Thanks. In 2023 and 2024 I see the fund's rate of return fell short of both the passive benchmark and the active management target. Can you speak to some of the reasons for this and whether it's expected to continue into the next year?

Dr. Puffer: Certainly. I will happily take that question. The conviction in our private asset classes really remains strong, and it's really the private asset classes that have underperformed their benchmarks, meaning infrastructure, real estate, and private equity for the most part. That underperformance in any one year can come from a variety of things, and in this particular year it came from primarily the private investments. The public market assets have outperformed their benchmark generally over this last year or two, so the performance there is really quite sound.

We do think that we're going to continue to have some headwinds in real estate over the next year or so, but we are continually repositioning that portfolio to deliver strong outcomes. We've been doing some repositioning in that portfolio over the past year. And then as interest rates normalize, we think that we'll be seeing some good opportunities across the inflation-sensitive sectors that are these private asset classes, particularly real estate in the domestic area and infrastructure. So we think that we'll see some added performance there.

But, again, it's over the long horizon that we really evaluate this performance, and in any given year it's not too surprising to see either underperformance or outperformance.

The Deputy Chair: Thank you very much.

Mr. Bouchard: Chair, thank you very much.

The Deputy Chair: Our next question comes from MLA Kasawski.

Mr. Kasawski: Thanks, Mr. Chair. I'm just going to refer to Mr. Thompson's comments about the $2 billion, and it's also mentioned in the message from the President of the Treasury Board. That $2 billion: my understanding is that it was borrowed. We're borrowing money for that $2 billion deposit. Is that how you'd frame it?

Mr. Thompson: No. That would have been from last year's surplus. It's part of the Alberta fund. It's under the current fiscal framework. It can allocate 50 per cent of a surplus to debt repayment, and then the choice on the remaining 50 per cent is either further debt repayment, contributions into the heritage fund, or one-time initiatives, which have not yet been used. This was part of that. That $2 billion would have been from last year's surplus cash.

Mr. Kasawski: Okay. All right.

That's it. No follow-up.

The Deputy Chair: No follow-up? Okay.

Next question comes from MLA Lovely.

Ms Lovely: Also, on page 11 it was noted that persistently elevated inflation is beginning to produce a gap in the target return and the actual return. With the recent persistent high inflation, the real return target grew as well. This means that the return target is asking for a larger fund return to off-set inflation effects. I would presume that the gap between the real return target and the actual return annualized over the past five years is, then, largely due to lagging returns compared to the highest inflation we have experienced. Is this accurate? If so, how long might it take for the fund's return to catch up with the higher inflation environment, especially as inflation has now seemed to stabilize and is beginning to decline once more?

Also, in '23-24 I'm glad to see that the fund's rate of return exceeded the real return target. Is this potentially an indicator that the fund's returns are catching up to inflation?

Dr. Puffer: I can take that. Thank you. That's a really great question. As you have highlighted, it is reasonable to say that the gap between the CPI plus 450 basis points objective in the heritage fund's return over the last five years has been driven by the higher inflation that has really taken place over this last couple of years. For example, you can see that the returns in 2022-23 fiscal year drove a divergence between the fund return and that benchmark return, primarily because of private market underperformance, again, as I noted earlier. The fund did underperform the CPI plus 450 benchmark in this year by 5.1 per cent, but at the same time it did outperform that other composite benchmark by 1.2 per cent in what was a challenging year for investment markets overall. Our five-year return is challenged at the moment and currently not meeting that benchmark.

But, as you correctly indicated, inflation is starting to fall in line with central bank limits, so we're pushing back down, and that's what's allowing central banks to begin to start to drop their policy interest rates and is allowing interest rates to begin to drop. With that, we expect that the return opportunity set for many of the investments that we already have in place in the portfolio in real estate, infrastructure, and other areas that are inflation sensitive – we think that they'll still be quite resilient, and it means that credit markets are likely to perform well as well.

You know, inflation is volatile. It's reasonable to expect over time that inflation will subside to these normal levels, more normal levels. Again, over 10 years on an annualized basis the fund has outperformed the inflation plus benchmark by more than 100 basis points, or about 1.1 per cent. So over the long horizon, again, expecting that things will normalize. This recent period has been a challenging one for inflation-sensitive assets to keep up, but we actually think that they'll do quite well even as inflation drops somewhat, as there's a bit of a lag in that relationship as well.

1:30

The Deputy Chair: Do you have a follow-up?

Ms Lovely: I don't have a follow-up.

The Deputy Chair: You don't.

Our next question comes from MLA Kayande. Go ahead.

Member Kayande: Thank you, Mr. Chair. I just want to dig in a little bit to page 3, the preamble of the message from the President of Treasury Board and Minister of Finance, where he says that "the government is charting a [plan] to grow the Heritage Fund to between $250 billion and $400 billion by the year 2050. This target is realistic and achievable under the fiscal framework introduced in Budget 2023." Now, the Premier said on June 13, and I quote: if we took a different strategy with these heritage savings trust fund assets, more like a sovereign wealth fund, that might give us more opportunities to be able to assist in derisking projects we're finding difficult to be able to get financing for. End quote. That is a substantial change to the mandate of the fund as I read it. It's a substantial change to how the fund is operating, and it seems to be in conflict with the goal of increasing fund returns to get to a larger fund. Has the Premier's office discussed this changing mandate with either AIMCo or with Treasury Board and Finance?

Mr. Thompson: We have had no discussions in that regard.

Mr. Prakash: Likewise; no discussions with us, with AIMCo.

Member Kayande: If such a discussion were to be had – I realize this is a hypothetical, so maybe let me put it a different way. What would you say about the impact to the fund's risk if the fund's cash flow is being used to derisk other projects for the investors? Do you anticipate that the fund's risk would increase or decrease? And would the returns of the fund increase or decrease?

Mr. Thompson: I wouldn't be prepared to comment on that. That's speculative, from my perspective. I'm here to discuss the annual report for '23-24. Deviations in future investment policies: not something I'm willing to discuss today.

The Deputy Chair: All right. Okay. Any comment?

Mr. Prakash: No. Nothing from AIMCo.

The Deputy Chair: Okay. Our next question comes from MLA van Dijken.

Mr. van Dijken: Thank you, Chair. Just taking a look at page 11. I've just got to get it back up on my screen. Like, taking a look at the asset class versus the benchmark table, I see that in the past year the fixed income and equities classes both outperformed the benchmark. That's good to see. I also see that the inflation-sensitive asset class underperformed the benchmark, which seems to make sense considering the slowing down of inflation, that environment. Could you speak to your projections for the inflation-sensitive asset class going forward?

Dr. Puffer: I think I addressed some of that in the response to the previous question. We do expect that with inflation slowing somewhat, you know, we may see inflation-sensitive asset returns be in a little bit more of a normalized range, but that isn't to say that they won't perform well. There are a couple of asset classes that really are designed in the portfolio to be somewhat linked to inflation, and that, again, is the domestic real estate, primarily, and the infrastructure portfolio. Both of these have an approach that is relatively a low-risk profile that allows these asset classes to have a pretty even keel kind of approach into investments and their returns over time in general, but again that's measured over relatively long investment horizons. I don't have the crystal ball to tell you how they're going to perform over this coming period, but we have been making some very active choices, particularly in the real estate portfolio, which has suffered over this past couple of years post the COVID period in a couple of sectors, namely the office sector in particular and certain areas of retail, and we are pivoting that portfolio into more opportunistic investments that we expect to outperform even in the near term.

Hopefully, that answers your question.

Mr. van Dijken: Yeah. I've got a follow-up, Chair, if I may.

The Deputy Chair: Yeah. Go ahead.

Mr. van Dijken: I'm just looking at the strategic opportunities, and somewhat more concerning there that both in the past fiscal year as well as in the past five years they've underperformed the benchmark. Could you share with the committee what types of assets are held within this class and why it has underperformed in the way that it has over the past five years?

Dr. Puffer: Certainly. First, I'd like to just highlight that this strategic opportunities pool is a very small part of the total portfolio. It's only $65 million, or .3 per cent of the heritage fund. It's very small. It consists of only a few items: currency hedging, which we conduct at the total fund level, which is a very small footprint. Most of the currency hedging that we do at the moment is done within each asset class, so there's only a very small amount that's done at the top of the portfolio.

We have a small strategy that is tail risk hedging strategies for public equities, and we put certain structures in place in the derivatives market from time to time that allow us to have positive returns if the equity market drops. Well, I think everyone knows what's happened to the equity markets over the past year or two; they've been mostly on the way up. We do put those structures in place in a way that generally doesn't have an outright cost associated with them. We're able to structure those at a zero or very low cost, but they appear in that pool.

And then, finally, there's exposure to a pool that we call ASOP, the AIMCo strategic opportunities portfolio, and that is designed to hold opportunistic investments that are authorized by the heritage fund investment policy. At this point there are three assets held in that portfolio. They're all old, legacy assets. They've been in there for quite a long time. We continue to actively manage them until we can exit them. They're all illiquid assets, primarily in Latin America, in Brazil and in Colombia, for example. They're a very small, noncore part of the fund mandate. We're doing what we can to help the performance of those assets, but they were entered into a very long time ago, and we're just pretty much waiting for them to roll off.

Mr. van Dijken: Thank you.

The Deputy Chair: Thank you very much.

The next question comes from Member Kasawski. Go ahead.

Mr. Kasawski: Thanks, Mr. Chair. On the message from the President of the Treasury Board that the government is turning a path forward for the heritage fund between $250 billion and $400 billion by the year 2050 and that the target is realistic and achievable under the fiscal framework introduced in Budget 2023. Could you just help me understand what the fiscal framework is?

Mr. Thompson: Sure. Thank you. The fiscal framework was introduced in Budget '23, and it sets out a framework for the allocation of surplus cash. As you know, government is targeting surplus fiscal positions wherever possible, and we've had particularly good results over the past two years.

The fiscal framework simply says that surplus cash at the end of the year can be allocated – must be allocated – as a 50 per cent split to debt repayment, so 50 per cent of surplus cash at the end of the year is to be used to retire maturing debt in the next fiscal year. Last year we retired 13 or was it – I get the number wrong, but it's in the budget. It's around $3 billion. The remaining 50 per cent of any surplus cash at the fiscal year-end can be used either to further repay debt in the same way, again, maturing debt, term debt not to be refinanced; or it can be allocated into the heritage fund for deployment within the asset mix; or it can be used for one-time projects that do not result in ongoing spending commitments. That particular mechanism has not been used by government as yet, and you would have to think of things like capital grants, perhaps in-year capital grants that only occur the once would be the only way to really deploy that cash in that manner.

The Deputy Chair: Okay. Follow-up?

Mr. Kasawski: Yeah. So, then, in terms of reaching, like, $250 billion, what rate of return would be a reasonable and prudent rate of return to expect so that we could reach that in 2050? I guess, if I could just add to that, rate of return and annual contribution if we're going to maybe hit that $2 billion every year.

1:40

Mr. Thompson: I don't have specifics that I can share with you with respect to returns. The reason that there's a gap between $250 billion and $400 billion is that it does assume certain levels of contribution into the fund. That's how you get between $250 billion and $400 billion. It's a wide set of goalposts. The $250 billion assumes modest contributions into the fund and a rate of return similar to what we're seeing from AIMCo.

The Deputy Chair: Thank you very much.
Our next question comes from Member Hunter.

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

Ms Jones: Thank you for the question. This is an investment policy decision where we've actually overweighted global developed equity since the last major overhaul to the fund's performance. When we're developing the investment policy, we also have to take into account risks of certain asset classes. Risks and returns are very highly correlated. When we go back to the act for the heritage fund, it talks about a total-portfolio approach, where we are also considering all of the risks that play in, and in the investment policy there are also a bunch of risk metrics as well. This asset class has absolutely done very, very well for the heritage fund throughout the course of the last one year, five years. We're happy with its performance. It also plays a very integral part in a diversified portfolio, which is also very important to the fund.

The Deputy Chair: Okay. Do you have a follow-up, Member Hunter?

Mr. Hunter: I do not. No.

The Deputy Chair: Okay. Thank you very much.
Our next question comes from Member Kasawski.

Mr. Kasawski: Thanks, Mr. Chair. On page 9 there's a great chart I'd like to focus on, which is the market value inflation adjusted per capita. It's a nice, you know, artistic representation. What I'm seeing there is that in 1976-1977 the per capita value of the fund looks to be about the same as it is in 2024. That's kind of how I'm looking at it. I'm wondering, and maybe you have to come back to us because you might not have – or maybe Brittany can get the calculator and figure this out sometime. What will the inflation adjusted value per capita be in 2050 if the fund is at $250 billion?

Mr. Thompson: We will take that away. I mean, there obviously are two factors there. One is the size of the fund, but the other is the population in Alberta. Currently we're leading the country in population growth. We're leading the globe, I think, mainly, particularly in the developed world. Those levels are not sustainable, so the projections will be a little hard, but we can go back to our demographics group and chart something. We could do that against the $250 billion, $400 billion. I think that's relatively easy. But we can definitely bring that back to the committee.

Mr. Kasawski: Okay. Great. Thanks.

The Deputy Chair: A follow-up?

Mr. Kasawski: No.

The Deputy Chair: The next question from Member Wiebe. Go ahead.

Mr. Wiebe: Thank you, Mr. Chair. Page 16 provides a number of tables of breakdown into different asset classes by key investments under them. I see in the top renewable resource holdings table that a single holding, which is the Forestry Investment Trust, accounts for 77.1 per cent, and that's equivalent to about $450 million of the renewable resource holdings. Meanwhile the investments in other classes seem to be more balanced; for instance, the top single holding in foreign real estate accounts for less than 5 per cent of the weight of the total holdings in that class. Could you provide the committee with further detail on what the Forestry Investment Trust is and why it accounts for such a large share of the fund's renewable resource holdings?

Dr. Puffer: Yes. I will take that. Thank you. It's a great question. First, to point out that the renewable resources is – the way we manage the portfolio is managed by our infrastructure team, and it is kind of a diversifier within infrastructure, and we did set it up as a separate asset class. The heritage fund does allocate separately to that asset class, but it's a relatively small proportion of the overall heritage fund. So although that investment is large within that asset class, the asset class itself is quite small.
But I'll talk about that asset, which is pretty cool. It has had an incredible performance of 14 per cent compounded every year since 2010, so an average return of 14 per cent per year, which is a huge win in the investment business. That has quadrupled in value for the heritage fund since we started investing in that in 2010. Although it's a very large asset, it is also a very diversified asset. It was among the early investments in that asset class. It's in Australia, and it's a pool. Itself is a pool of 428 different properties across Australia from coast to coast. So it's not one thing. It's a very diversified portfolio; 428 different pieces of land. It spans 160,000 hectares. That's equivalent to more than twice the size of the city of

Edmonton, which is a pretty big geographical city. Just to give some perspective on it, it is a very diversified portfolio within that.

What it does is it primarily targets commercial production of hardwood eucalyptus trees. It's quite a sustainable forestry operation. It also, to a lesser extent, does some softwood trees and some agricultural activities, so even within it the activities are quite diversified. It's diversified across geographies, land types, and climates within Australia, because we take a very serious look at making sure that we're not subject to undue weather events that could really adversely impact the portfolio if it was too concentrated.

We do have an investment partner alongside us in this asset. It's a group of investors via a fund. We do have also boots-on-the-ground forestry experts that are based in Australia who oversee the properties on a daily basis. This is within the global asset class of renewable resources or agricultural-type activities: timberland, agriculture, et cetera. This is in a jurisdiction that's very investor friendly, and we have additional assets that we manage on behalf of other clients in that jurisdiction as well for that reason. From the long-term perspective, it's a well-diversified portfolio, one we will be invested in on your behalf for a long time to come, and we continue to look to add additional assets within that asset class.

The Deputy Chair: Thank you.

Mr. Wiebe, a follow-up?

Mr. Wiebe: Yeah. Now my question is: why are we not adding more to that asset class?

Dr. Puffer: We have. Yeah.

Thank you.

The Deputy Chair: Thank you.

Okay. Our next question comes from Member Kayande.

Member Kayande: Thank you, Mr. Chair. I'm just reading off page 4 of the annual report here, where

> The Act specifies that the mission of the Heritage Fund is to maximize long-term financial returns from its investments. The Act also specifies that the investments of the Fund must adhere to investment and lending policies, standards and procedures that a reasonable and prudent person would apply in respect of a portfolio of investments to avoid undue risk of loss and obtain a reasonable return.

Page 6 – sorry; my eyes. Yes. On return targets: "Portfolio construction is designed based on the targets and objectives set by the Fund." I want to step back to the previous question I asked, and I admit to some disappointment that you – do you legitimately and seriously have no opinion on whether the Premier's office interfering in the investment process is good for returns or bad for returns?

Mr. Thompson: There is no evidence, and I have nothing to add to say that the Premier's office has interfered in any way in the investment strategy, investment policy-making, or anything else associated with the heritage fund.

1:50

The Deputy Chair: We need to tie this to the previous year's report.

Member Kayande: I did quote from the report, Mr. Chair.

The Deputy Chair: Okay. All right. Do you have a follow-up?

Member Kayande: Yes, I do. I quote here: a complete violation of Alberta's trust; a centralization of power around unelected staff in the Premier's office; it is desecration of Peter Lougheed's legacy. That's a quote from David Parker this morning, who is not an investment professional. He's willing to go on the record with what the risks are to the people of Alberta. Why is Treasury Board and Finance unwilling to be up front with the people of Alberta around what the Premier's policies are around this fund?

Ms Lovely: Point of order.

The Deputy Chair: Go ahead.

Ms Lovely: Point of order is 23(b). The member opposite is asking a line of questioning which is well outside the scope of this committee. We are here to discuss the contents of the annual and quarterly reports provided. The events in question fall outside the fiscal year covered in the annual report, and the committee's intended focus is the administration of policy rather than questions to the merit or development of a policy.

He's quoting Parker. Parker is not an elected official. He's not affiliated with our government in any way, so I'm not certain why he's bringing up this matter.

Member Kayande: Thank you, Mr. Chair. With respect, I believe this is not a point of order. The Premier has on multiple occasions over the last month both chosen to talk about a $250 billion heritage fund and as well talk about its potential investment in a way that is, frankly, contrary to the act. Those provisions are in the report. I quoted from them how the fund is intended to be invested in, what the process is as it is followed, so I do not believe that it is a point of order that we have a conversation about what the government is actually proposing to do with the fund.

The Deputy Chair: Okay. Yeah. I would say that this is a point of order. It's speaking to items other than what this presentation is about, unless – did you want to say something?

Mr. Thompson: I mean, I can add to my earlier response and confirm for the member that currently all legislation, policies, mandates, and roles are in compliance and in accordance with the legislation, the act. The strategies, the asset mix is all in compliance, and nothing has changed with respect to the '23-24 annual report.

The Deputy Chair: Thank you.

Our next question comes from Member Bouchard.

Mr. Bouchard: Thank you again, Mr. Chair. On page 10 of the report it notes that the target asset mix for the fund is split into three main categories: 20 per cent fixed income, 32 and a half per cent inflation-sensitive and alternative investments, and 47 and a half per cent in equities. My question is: how is the target mix determined, and is it adjusted year to year?

Ms Jones: Thank you for the question. This target mix was first developed in 2011, and it was developed with a very long-term view in mind, so that's where you see the CPI plus 450 come from as well as the 1 per cent value-added target. The target mix is not meant to be adjusted on a year-to-year basis. It's meant to take a long-term view.

That being said, we do make adjustments on an annual basis, and we work with AIMCo to do that. They support us in many ways, as we support them. There is a consultation process that takes place. We have adjusted some of the asset classes that are performing well such as private debt and loan a little bit up. We have also adjusted some down, like universe bonds, just because we have been seeing greater returns within our risk tolerance in different asset classes.

If we do see opportunities on a year-to-year basis, we may make slight adjustments, but that's also why the ranges are there, to give the asset manager some flexibility in generating returns that fluctuate from the long-term asset mix. But the long-term strategic asset mix has been developed with the objectives of the fund over the long term.

Mr. Bouchard: Thank you.

The Deputy Chair: Do you have a follow-up?

Mr. Bouchard: Yes. One more, please. I see also that page 10 notes, "The investment manager is allowed to overweight or underweight these asset classes to take advantage of sectors that are outperforming." Can you speak to some of the decisions that were made for the '23-24 fiscal year in terms of overweighting or underweighting certain asset classes?

Dr. Puffer: Certainly. Thank you for that question. We do have some discretion to take tactical and dynamic views over the short to medium term with respect to the target asset mix. There are a few ways that we do this. First is at the total fund level. We sometimes have a house view on the main liquid assets that we can adjust with a little bit more frequency than we can do with the more illiquid asset classes, so public equities, fixed income, and cash. We do take some tactical positions there. This is informed by, you know, our macroeconomic outlook and in-house research processes.

This past year or so we have mostly been overweight, fixed income, not with a huge position in that, between about a quarter and a half of a percentage point, with a slight underweight to public equities. So that has taken a little bit of a negative effect on performance this year with the significant outperformance of the equity markets. We did take a little bit of underweight in equities early on in the year, and then we have since gone to neutral on public equities.

A more important way that we tend to take positions relative to the target asset mix is that within the inflation-sensitive alternatives and the more illiquid asset classes we do take some tilts, and one of them that's been a really important one over this last couple of years is an overweight positioning in the private credit market. For a couple of years we've had an overweight there, and it's been a really good source of total return and relative return versus traditional, more liquid fixed income. Over the last two years private credit has returned to 8.2 per cent versus universe Canadian bonds, that were less than 1 per cent or at about .6 per cent return over that same period. So that overweight into private credit has been a very good outcome for the fund, and it's an example of what we refer to as more of kind of a dynamic asset allocation. It's not something we can do on the turn of a dime; it does take time to deploy into these asset classes. But we do take those views.

From a practical standpoint, one of the reasons why that kind of stocks, bonds, cash kind of risk-on, risk-off positioning that we often hear referred to in the financial markets is something we tend to take relatively minor positions in is because every client, including the heritage fund, has a risk budget, and that risk budget is an amount of risk against which we can take positions that differ from the benchmark. When we take positions that are in that stocks, bonds, cash space of really kind of taking that one-dimensional bet – do we think, you know, stocks are going up versus bonds or vice versa? – that tends to use up that risk budget quite quickly, and we prefer to use that risk budget inside of asset classes to take active positions against the benchmarks that are inside those asset classes. We think that as investors the edge that we have tends to be more within asset class than it is at that top stocks, bonds, cash kind of level.

The opportunities to really take those bets don't come along that often in markets where you can take that kind of positioning with a very high level of conviction. So the majority of our activity tends to be within asset class.

The Deputy Chair: Thank you very much.

Our next question comes from Member Kasawski.

Mr. Kasawski: Thanks, Mr. Chair. Just on page 5 – we're referencing it – there's a reference to the five-year investment return. "The target five-year investment return was [about] 7 per cent." That was the target. We seem to be hitting about 6.4 per cent, but we've had a 10-year return of about 7.6 per cent. I'm just going to focus on getting to this, like, $400 billion, which is an exciting number. I just pulled out the financial calculator from the Internet – that's how I do my math – and I could say that $2 billion is a really nice contribution, but maybe we'll call that modest. You know, of our five-year return of 6.4 per cent, it seems like that would get us to a little bit shy of $250 billion, but maybe about $234 billion. If we use the 10-year annualized return, which is good, that gets us, at 7.6 and a $2 billion a year contribution, to, like, $293 billion. That gets us into that range of that $250 billion to $400 billion. But if we can just maintain that modest contribution of $2 billion a year for 25 years, it seems that to get to that $400 billion, that rate of return we would need would be about 9.2 per cent. That seems to be about a 30 per cent increase above that 7 per cent target. I guess that comes back to our act. Is that a reasonable and prudent rate of return to expect over the next 25 years to reach that $400 billion?

2:00

Mr. Thompson: I'm not going to argue with the member's math. You know, I don't have specifics to discuss today with respect to what our assumed rates of return are and what our assumed contributions are. The $250 billion to $400 billion, we feel, is an achievable target. We will be releasing a report in the fall detailing how we plan to achieve those targets, but I have no details to share today.

Mr. Kasawski: Okay. Just a quick follow-up. Yeah. The minister did mention in the House that the plan was to articulate this plan, like you've mentioned. Will growth rates be included in that plan and the contribution rates to kind of map out how it would go to the future, or would it be more like a framework?

Mr. Thompson: I don't have those details today. I assume most of the assumptions that you're looking for will be included in that report, but I do not have the specific details as to what will be in the report. No.

Mr. Kasawski: Okay.

The Deputy Chair: The next question comes from Member Hunter.

Mr. Hunter: Thank you, Mr. Chair. I do have a question here today, but before I do, I just wanted to say that I've been trying to listen to the questions from the members opposite. They seem to be quite focused on the $250 billion to $400 billion growth. What's interesting to me is that the NDP – I'm not saying the individual members in the committee – seem to be continually pushing for moving off oil and gas in the world . . .

Member Kayande: Point of order.

Mr. Hunter: . . . yet they seem to be fighting against the idea that we're going to try to figure out how to . . .

The Deputy Chair: Just a minute. Point of order.
Go ahead.

Member Kayande: The purpose of this meeting is to discuss the annual report and discuss the operations and mandate of the heritage savings trust fund. To my understanding, it is not to relitigate the election talking points, Mr. Chair.
Thank you.

The Deputy Chair: Okay. Who wants to . . .

Mr. Hunter: I'll take that, Mr. Chair.

The Deputy Chair: Okay. Go ahead.

Mr. Hunter: Yeah. I think that my point here is that, you know, we brought in Treasury Board and Finance, we brought in AIMCo members. I haven't heard one question that actually addresses the issues of the report. So I was just trying to point out to Albertans that will probably be listening and watching that this is typical of the NDP, to be able to go down this line of reasoning. I do have a question, and I can get to it, but I think that's one of the reasons why the NDP aren't taken seriously by Albertans, because when we come to a meeting like this to talk about the report, they talk about everything but it. That was just my point. You know, if this is considered a point of order, I will apologize and withdraw.

The Deputy Chair: Okay. Yeah, it would be considered a point of order. I'd like everyone to focus on what they're here for today, the '23-24 report, and not engage in this back-and-forth stuff. If you can carry on with your question, I would appreciate that.

Mr. Hunter: You bet. Mr. Chair, I see on page 12 of the report that "the private equity managed a turnaround from last year and brought a positive return of 10.2 per cent for the fiscal year, 0.3 per cent higher than the passive benchmark return. Private equities have [also] produced a return of 13.3 per cent in the last five years, 4.3 per cent over the passive benchmark." What are some of the factors that allowed for this turnaround in performance from private equities in 2023-24?

Dr. Puffer: I'll take that question. Thank you. For reference, the one-year return on private equities was 10.2 versus the benchmark of 9.9, but as I've mentioned earlier, generally speaking, this among the other more illiquid asset classes is one where we tend to focus on the longer term. A five-year return of 13.3 is also quite ahead of the benchmark return of 9. If I look back at last year's annual report, the return for the fiscal year ending March 31, 2023, was negative 1.7 per cent for private equity, which did trail the benchmark quite significantly for that year. So it does tend to have some volatility year to year, and it is a difficult asset class to assess in any given year and should be looked at over a longer horizon.

When we make commitments into private equity, we make those commitments for a fund life of seven to 12 years, which is very typical of the industry. We also make co-investments, for which we have what can often be an even longer investment horizon. So one year really doesn't quite tell the story. As an example, in the previous fiscal year Canadian equities returned minus 3 and a half per cent. Global equities were slightly positive at 1.8. That was a tough 12-month period for equity asset classes in general, and private equity, you know, tends to have a relatively smooth path of valuations that's correlated with those public markets but doesn't track it exactly. Sometimes it's lagged relative to those.

So as we moved into this fiscal year, with public equities up almost 20 per cent, valuations are up. Private equity has generally benefited from that increase in the public equity markets as well, but it remains to be seen what specifically is happening to the valuations of the investments we've made in particular within that fund.

Our private equity program is very disciplined. We follow an approach where we allocate about 60 per cent of your capital there to funds and the remaining 40 per cent into co-investments for the funds. We really work with top-notch global partners that are real experts, and for the most part the co-investments are ideas that are in those funds. And then we take a more high-conviction view based on our own analysis and opportunities that go with those. We've been following this approach since about 2016, and we invest really consistently throughout the business cycle. We have a long-term expected return – you know, again, we don't have the crystal ball, but we do make some assumptions – that private equity should earn something on the order of about 9.9 per cent over the next decade or so, which is roughly in line with what it's done over the past decade or thereabouts.

So, summing up, one year doesn't tell the story in PE.

The Deputy Chair: All right. Thank you.
Do you have a follow-up, MLA Hunter?

Mr. Hunter: No, I don't, Mr. Chair.

The Deputy Chair: Okay. Thank you very much.
Our next question comes from Member Kayande.

Member Kayande: Thank you, Mr. Chair. I have a question about note 3. That's on page 27, and it's the reconciliation of level 3 investments. I recall that I asked a question about this at our last quarterly meeting, but I don't recall the answer, so please indulge me, because I am repeating myself, and the reason is that I just simply don't remember.

I believe that the question was – and I still remain a little bit interested in this, the secondary markets around private equity investments. It does seem as though in 2024 there was more secondary market activity from AIMCo itself. I know that secondary trade in private equity investments is only going up, and that's by significant double-digit percentage amounts every year. You know, my question around this is kind of like – okay. The level 3 funds that we sold versus – like, the funds that we sold, for example: was there a mark to market? Where would the mark-to-market gains or losses on those sales be? Are they primarily – like, are they marked down prior to sale typically, or are they seen as being more opportunistic? As well, the purchases and where they've come from: just a little bit more colour, I guess, on how this all works. For a fund this size, purchases and sales totalling together roughly $3 billion is significant and interesting to me.

Thank you.

Mr. Prakash: Thank you for the question. It does make the two of us; I don't remember my answer either.

Firstly, a quick sort of reminder on the reference to level 1, level 2, level 3. Level 1 are securities that trade commonly in the market, so think of Microsoft shares, RBC shares. Level 2 are when we buy pooled vehicles or commingled vehicles. If we buy a fund that's offered by BlackRock or Blackstone, those would fit in the second bucket. And then level 3 are typically illiquid investments, including co-investments, real estate, et cetera. Those are the three sort of broad categories, and then we follow standard accounting practices, which are noted and disclosed in the financials.

2:10

In terms of the valuation and how they get marked, we have a pretty standard process in terms of how the mark to market happens or how the valuation happens. There is a valuation committee that oversees it, and ultimately the governance rolls up to AIMCo's board, from a governance perspective. From a process perspective, if there are any transactions – sorry; one more thing. Each of everything is valued at least annually, and then on a six-monthly cycle there is a valuation, but that's not as rigorous as the annual one. But that, again, is very consistent with the best practice in the industry given the types of investments.

When we are making a disposition at that point in time, we certainly – one of the things that happens is relative to your last valuation, where you actually trade in the market. You know, that assessment does take place, but there isn't really a mechanism, if you will, that we would change or tweak the holding value, what we've reported to the clients, which is audited ahead of any transaction.

Then, lastly, you know, why the number is $3 billion or $2 billion in a particular year: it is simply a function of the cycle and where we see opportunity in terms of what we think we would sell and what we would buy on the other side. So there isn't really much to read into that other than the broad statement that there is more secondary activity in the market, which just gives us a larger opportunity set.

Dr. Puffer: Yeah. I'll just add maybe one comment, that is: we haven't been all that active in the secondaries market in private equity. Where we've looked at what's been happening, there have been significant discounts in some areas. Sometimes those discounts, relative to what is sort of a net asset value or a fair market value, are there for a reason. It's a little bit like, you know, it's cheap for a reason. So we do thorough due diligence in evaluating whether or not something, we think, is good value, so we've done a little bit of picking up assets in the secondary market.

One of the benefits from doing the secondary market purchases is that it puts money to work right away in a pool that already exists; it doesn't take time to put the money into that market. That's one of the reasons why that market has been relatively active, but the activity was much higher in 2021 and 2022. In 2023 it really did slow down quite a lot. We do from time to time look at selling certain assets out of our portfolio as well, but we tend to not be keen on taking big discounts unless, you know, we think it's really appropriate and we can deploy the capital better in new assets. So we actually haven't been that active in the secondary markets even though those markets have been quite active themselves.

Member Kayande: Thank you.

Just one follow-up, then. How would you characterize the cash received from these sales versus the original cost base of these assets? Do they tend to be about 1 to 1 for your sales?

Dr. Puffer: Do you mean: if we did sell some assets, what kind of discount did we take?

Member Kayande: Yeah. Typically against the costs.

Dr. Puffer: I can't cite that specifically for this portfolio in this period. I'm sorry; I don't have that at my fingertips, but we can get it for you.

Mr. Prakash: What we would say is that in general – and this is just stating given the returns – the five-year return is about 13 per cent. So on average, all else equal, relative to a report, you know, we're selling on average at a higher price. All else equal.

Member Kayande: Okay. Thank you.

The Deputy Chair: Thank you.

Ms Lovely: On page 12 the report states that

> over the fiscal year, global non-[development] equities provided a marginal contribution to overall equity performance, with a return of 6.9 per cent under the passive benchmark by 16.2 per cent with security selection being the largest detractor from performance.

Could you provide some further detail on this? Specifically, what were some of the challenges with the securities selection that led to this underperformance, and do you see it being a factor in future years?

Also, I see that "over the last 5-years, the returns on global non-developed equities has been 2.1 per cent, [which is] 9.1 per cent lower than the passive benchmark return of 11.2 per cent." Is there a strategy to address the ongoing underperformance of this asset class?

Dr. Puffer: Thank you. That's a very good question. For context, the global nondeveloped equities are generally referred to as emerging markets, so I'll use that terminology. You can think, you know, China, South Korea, Brazil, South Africa, India, Mexico, Indonesia. Those are the largest countries there, just to put that in context of what the investments are that we're talking about.

In the current heritage fund policy – that does go back quite a while, as mentioned by Brittany earlier – the emerging markets are benchmarked actually not against an emerging markets benchmark. It's actually benchmarked against the global developed markets, so the MSCI world index. What you're capturing in that underperformance isn't an active underperformance against kind of a market-value-weighted emerging markets benchmark; it's actually against developed markets. The main reason for that underperformance is the broad underperformance of emerging market equities over this period.

If we were to compare that return of emerging markets to a similar benchmark, which would be, you know, the MSCI emerging markets index, you'd find that it's much closer. That returned 7.8 per cent over the period versus 6.9 per cent return for the heritage fund allocation, so much closer. It's still underperforming but much closer. We do manage our emerging markets strategy to the emerging markets type of benchmark although it's measured in this pool's performance against the broader developed markets. I just wanted to make sure that that's understood in terms of what the data have to say.

It is the case that emerging markets have broadly lagged the global developed markets for quite a while over this last decade. You know, I think you've all seen that the Magnificent Seven technology stocks have really been the drivers of developed market equities, and when you take those out, the performance of the developed market equity markets is much more muted, and those technology stocks are not in the emerging markets portfolio. The biggest reason over this period is because of that differentiation of the big technology stocks. That's been a pretty tough act to follow.

There have also been some regional challenges. China, in particular, has had some significant economic difficulties, and that meant that that market has underperformed of late. Russia being another; basically, no one is investing there, and their markets have performed terribly.

Although there are some challenges, we do think that the market is starting to be a little friendlier to the emerging market opportunity set. We were in fact just talking about it this week in one of our regular meetings. With interest rates starting to normalize again back down to slightly lower levels, which should happen over this next little while, that tends to be good for emerging market equities, so we may start to see that part of the portfolio turn.

The Deputy Chair: A follow-up?

Ms Lovely: No follow-up.

The Deputy Chair: Our next question comes from Member Kasawski.

Mr. Kasawski: Thanks, Mr. Chair. Just with the historical contributions to the transfers to the fund, and I'm just going to focus on the mission which motivates me, which is, you know, getting a return on savings from nonrenewable resource revenue. When I look at our summary of operations historically, we're not ever allocating nonrenewable resource revenue. Resource revenue allocation has been nothing since 1987, but there have been deposits. Would it be possible for the savings of the $2 billion that's being allocated now to be called nonrenewable revenue that's being allocated? Let me reframe that. The $2 billion that's going to be put in: would that be able to be framed as resource revenue allocation?

Mr. Thompson: All of the revenue, really, received by the province is fungible, so it's difficult to specifically say that that particular $2 billion came from natural resource revenues, but given that natural resource revenues still represent about 16 to 20 per cent of our revenue stream, it is fair to say that some of that $2 billion was from nonrenewable resource revenue.

2:20

Mr. Kasawski: We wouldn't show it on . . .

Mr. Thompson: We wouldn't break it out specifically, no.

Mr. Kasawski: Thanks.

The Deputy Chair: A follow-up?

Mr. Kasawski: No.

The Deputy Chair: No. Good. Okay.

The next question comes from Member Hunter.

Mr. Hunter: All right. Thanks. On page 14 I noticed that the fund held $5.4 billion of interest-bearing securities as of March 31, 2024, which is an increase of $1.4 billion over the end of the previous year. Was this the result of a certified effort to increase the holdings of interest-bearing securities or merely due to some of the opportunities that became available in 2023-24?

Mr. Thompson: I can start.

Dr. Puffer: Sure.

Mr. Thompson: Primarily what's happened with fixed income is that cash receipts that otherwise would have been disbursed back to general revenue are kept within the fund, plus we have made, in '22-23, a $750 million contribution into the heritage fund. When we make those sorts of cash deposits, they are typically invested in money market instruments, so short-term, fixed-income instruments, and that will artificially expand the allocation to fixed income. So, no, it's not an overweight in fixed income. It's sort of a natural byproduct of a cash positioning piece.

I'll let AIMCo speak to that.

Dr. Puffer: I think you covered it.

Mr. Hunter: Okay. Well, I do have a follow-up.

The Deputy Chair: Okay. Go ahead.

Mr. Hunter: How did interest-bearing securities perform in 2023-24, and what are the projections going forward with our evolving inflation and interest environment?

Dr. Puffer: I can touch on that. The performance was quite respectable in this category for this fiscal year. Short-term money market and deposits did earn a 5 per cent total return. Bonds, mortgages, and private debt combined as a whole earned 4.1 per cent, and that's well above the five-year average of 2 per cent for this category.

This isn't surprising, you know, given that yields on Canadian bonds today are in the area of 4 to 5 per cent for universe bonds on average across all of the maturity spectrum. Corporates, of course, do pay a little bit more than government bonds. Interest rates did stop rising in this period, so the government of Canada 10-year bond is only about 20 basis points, or .2 per centage points, higher than where it was a year ago, and the spread or the extra yield earned on corporate bonds has come down a little bit as sentiment on the economy has improved and you need a little less kind of compensation for taking that risk in corporate debt. Private debt segments generated almost a 10 per cent return for this period, as I had highlighted earlier. That's been an asset class that's done very well.

Looking forward, we do expect inflation to normalize somewhat. The central banks should be bringing rates down, so that means the forecast for fixed-income asset classes generally is for relatively positive returns, and you know with yields still at the higher end of the spectrum, there's still opportunity for pretty good return in the fixed-income asset classes. In particular, we're still gaining extra return because of the floating rate nature of most of the investments we make on your behalf in the private fixed-income asset class. With that, the total return that we expect to earn on investments we're making today in that asset class is really quite strong.

Hopefully, that answers the question.

The Deputy Chair: Thank you.

Okay. Any other questions? Okay. Member Kayande.

Member Kayande: Thank you, Mr. Chair. I'm reading from *Hansard* from a response to a question from the minister in the House where he said: "the fund currently has about 20 per cent in fixed income. These are some of the things that will need to be changed." He goes on to say that the plan we're about "to articulate to Albertans later this year will clearly show the plan is based around growth, not around dedicated deposits." Can you talk a little bit about the 20 per cent fixed-income proportion and kind of, you know, what you think a reasonable amount should be in order to manage the assets of the funds appropriately?

Ms Jones: Thank you for that question. One of the things with fixed-income assets is that we need somewhere else to put them. As we have stated before, a road map will be coming out later on this year in which we will articulate a little bit more of the strategy. We have uncovered that the heritage fund now, with the changes in legislation, does not have the same liquidity requirements that it used to before. When we're looking at the long-term strategy, fixed income was a very vital component of that before, when we were making transfers back to the general revenue fund. This is something that the department has taken back and considered at great length now as to where those assets would have to go. There would be a transition period with that as well. So the answer is inconclusive at this time, and we will come back with a road map later on this year.

Member Kayande: Yeah. Just to follow up about that, I guess. I mean, traditionally fixed income is considered as kind of a hedge – not so much a hedge but as an uncorrelated asset, if you will. Certainly, I think the experience over the pandemic has been a little bit different than that. I'm a little bit curious as to where the fund manager thinks about, you know, risk-reward trade-offs for fixed income now just in light of the last three years but also in light of the last three years in the context of the last 50.

Dr. Puffer: That's a very good question and a difficult one. I would say, as I've mentioned in a couple of answers previously, broadly speaking, we think that at this point in the cycle, which is a bit nearer term projection, we do expect policy interest rates to come down a little bit. But that doesn't necessarily mean that those longer term interest rates are coming down much further, because the markets have been anticipating for some time that policy interest rates will be ratcheting down as inflation is normalizing and the economy is finding, hopefully, its sweet spot, soft landing, at least in the U.S. The dynamics at this moment are shorter term rates coming down, but longer term rates probably won't match that drop in the future.

When we look at really long-term investment horizon, the level of expectation about what interest rates are going to, where they will be levelling out, is made up of two components. One is a real long-term growth rate for the economy, and added to that is a long-term assumption on inflation. There's lots of argument out there about what, you know, the r-star, in federal reserve language, is. What really is the long-term kind of sustainable growth rate for the economy and, therefore, what is the long-term equilibrium interest rate is a subject of much debate out there, but suffice to say that interest rates over this coming decade are likely to be somewhat higher overall across the curve than they have been over the prior, certainly, five years or even 10 as policy rates have been close to zero. Levelwise: a little bit of expectation of higher than they've been.

Correlation. You mentioned that relationship between fixed income and equities as having – historically, over a long horizon, fixed income tends to be negatively or at least not highly positively correlated with equity markets. It therefore provides some amount of diversification. In any given horizon it's very difficult to know what's going to happen in terms of that relationship, and it has gone through cycles in its relationship. There have been periods of positive correlation, and as you rightly said, during COVID the kind of risk reduction – there was nowhere to hide during the COVID period. Let's put it that way. Fixed income didn't play its usual diversifying role. But that doesn't mean that that relationship is broken over the long term. It was a very unusual set of circumstances driven by very unusual shocks in the marketplace that no one could predict.

We did see some things that followed their usual pattern, which was the U.S. dollar kind of appreciating during that time, so having certain exposure into the U.S. market is helpful from a diversification perspective. U.S. treasuries tend to be part of a risk reduction for Canadian investors in that instance. Suffice to say that over the long horizon fixed income, I think, still does tend to provide some risk mitigation, and a portion of fixed income does belong even in a very long-horizon investment portfolio, that it does still continue to play that role. As I say, that level of rates is a little higher than it's been in the past, so you'd still expect to see a component in a long-horizon portfolio even if it doesn't need the liquidity.

2:30

Member Kayande: Thank you.

The Deputy Chair: Okay. Thank you.

We've reached our 2:30 time frame. Unless someone has got an absolutely burning question, I'll call it a wrap there.

I'll call for a motion

> to approve the Alberta heritage savings trust fund 2023-2024 annual report.

Member Kasawski. I can put it up on our screen here. Okay. Good. Any discussion?

Okay. I will call for all in favour in the room, say aye. Any opposed? All in favour online, say aye. Okay. Any opposed? Okay.

> That motion is carried.

Thank you very much.

Treasury Board and AIMCo, thank you for your attendance today. You're welcome to hang around, but if you want to head out, that's fine. Thanks a lot for your answering questions today.

Okay. Now we get to the annual public meeting. Hon. members, at our last meeting the committee began planning its annual public meeting, which is required to be held under section 6(4)(d) of the Alberta Heritage Savings Trust Fund Act. As members will recall, the committee decided to once again hold meetings here at the Queen Elizabeth II Building and to follow the same format we used as last fall's public meeting.

The committee may now want to choose a date for this meeting. This meeting has frequently been held in the evening on the final Thursday in October, before the start of the fall sitting of the Assembly. That would put this year's public meeting on Thursday, October 24, 2024, from 6 to 8 p.m. Would members like to schedule this date, or are there other proposals? Member Wiebe, go ahead.

Mr. Wiebe: Yeah. I propose that we move this date to November 6 from 6:30 to 8:30 p.m. This is due to the fact that October 24 is a week before the Assembly sits again. I propose that we do this meeting in the second week of session, when members are back.

The Deputy Chair: Okay. Go ahead.

Ms Robert: Thank you, Mr. Chair. I just wanted to let everyone know, of course, there's always a possibility of evening sittings. The committee, if there was an evening sitting scheduled – I mean, I know we haven't had many, but if there was one scheduled for that night, this public meeting would have to be cancelled, rescheduled, readvertised for. You probably know better than I whether we might have an evening sitting, but just so you're aware, that is in the rules, that if the Assembly were to pass a motion to have an evening sitting that night, this public meeting could not be held then.

The Deputy Chair: All right. Fair enough.

Any other discussion? Okay. Oh, go ahead.

Mr. Kasawski: I'll just bring up that it is when the RMA convention is, when Member Wiebe proposed. I don't know if that is pro or con, but that is just another factor that's on. It would be the tail end of the RMA convention in town.

The Deputy Chair: Yeah. Good point.

Mr. Wiebe: Well, it might get us more people at the meetings, right?

The Deputy Chair: Go ahead.

Member Kayande: I think I'm supportive of doing it during session. Coming up here the week before just to go back again is a bit of work for those of us who are from out of town, frankly.

The Deputy Chair: Any other questions online at all?
Okay. We'll take a vote. All those in favour of the motion – do I read this?

Ms Robert: We've moved it.

The Deputy Chair: We've moved it. Well, can I read it?
Okay. Go ahead and read what you've got up there.

Mr. Wiebe: Okay. The motion is that

> the Standing Committee on the Alberta Heritage Savings Trust Fund hold its annual public meeting on Wednesday, November 6 from 6:30 p.m. till 8:30 p.m. at the Queen Elizabeth II Building.

The Deputy Chair: Do I have to say "any discussion"? All right.

Mr. Huffman: Just do the vote.

The Deputy Chair: Yeah; just do the vote. Okay. All in favour in the room, say aye. Any opposed? All in favour online, say aye. Any opposed?

> That is carried.

Thank you very much.

Communication plan. At our last meeting the committee tasked the Legislative Assembly Office with creating a communication plan to advertise this year's public meeting. The report was made available on the committee's internal site ahead of today's meeting for members to review. Janet Laurie, from our LAO communication service, is here today to go over the plan and respond to questions that members may have.

I'll turn it over to you now, Ms Laurie.

Ms Laurie: Great. Thank you very much, Mr. Chair. I won't go into a lot of detail. I know you've all had access to the plan, and I'm here and happy to answer any questions you may or may not have. I would just like to provide a brief overview. The plan, you'll notice, is fairly similar to the approach we've taken in previous years. The areas where we have made some changes: I'll just call them to your attention.

We've tried to improve including a little bit more digital promotions in the overall approach. We've always done a lot on social media, and what we've recommended as a potential option, depending on the will of the committee, is more digital advertising in terms of the daily newspapers in Edmonton and in Calgary, and that also comes with a price tag in addition to the print version of those papers; billboards in the city of Edmonton to potentially drive more attendance at the event; and then the weeklies. Print advertising for the weekly newspapers around the province tends to be the biggest ticket item for the promotions for this annual meeting. What we tend to see is that most of these weeklies also have digital versions, so that's something that would also be included.

We've also added a few other low-cost, no-cost options that we'd like to try that we think might generate more promotion and more engagement in the annual meeting. We don't have means of tracking or measuring those, so they're not as – but they are very low cost, and it's something that we can easily accommodate with the resources that we have with the LAO. Those would be including information as a public service announcement with regard to the meeting, and that would be at the discretion of the broadcasters whether or not this met with their stipulations. It's, of course, at their direction as well when they air this information on their channels, but that's an option that we've thought of.

Also, more grassroots approaches in terms of things that we've done traditionally to reach out to senior residents in the city of Edmonton to try and create more engagement, doing that in a broader scope and doing that more provincially. We know that this is one of our most engaged audiences, seniors demographic, so being able to try and focus in and reach those groups a little bit more effectively. As well, promotions with local community leagues in Edmonton. You know, most communities have a newsletter, digital format. Just reaching out and providing information that can be shared at a very low- or no-cost option for the committee.

You'll see, having gone through the plan, that there's quite a range in terms of the price tag for these. What we've done is pulled together a lot of different options for the committee. Obviously, it's at the will of the group to make determinations about what we want to proceed with for the 2024 annual meeting, and obviously the price tag that aligns with that.

I'm happy to answer any questions if I may.

The Deputy Chair: Okay. Thank you very much.
I will now look to members if they have questions.

Mr. Wiebe: Can I make a motion?

The Deputy Chair: I guess we can. Sure. Go ahead.

Mr. Wiebe: I'd like to move that

> the Standing Committee on the Alberta Heritage Savings Trust Fund approve the draft communication plan as distributed.

The Deputy Chair: Any discussion on that? Online? No.
Okay. We will go to a vote. It's already been read, right?

Mr. Huffman: Yes.

The Deputy Chair: Got it.
In the room, all in favour, say aye. Any opposed? Online, anyone that's in favour, say aye. Okay. Any opposed? No. Okay.

> That is carried.

Thank you, Ms Laurie, for your presentations.

AIMCo provided a written response to questions asked at the committee's April 22, 2024, meeting. The response was posted on the committee's internal site for committee members.

Are there any other issues to discuss today?

Okay. Next meeting date. After the release of the fund's 2024-25 first-quarter report we'll be in touch with you.

If there's nothing else, we would call for a motion to adjourn.

Ms Lovely: So moved.

The Deputy Chair: MLA Lovely.
All in favour, say aye. Online, all in favour, say aye. Any opposed, say no. Okay. That's done. We are adjourned.
Thank you very much, everybody.

[The committee adjourned at 2:40 p.m.]

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