

2 p.m.

Tuesday, January 21, 1997

[Mr. Dunford in the chair]

THE CHAIRMAN: I'd like to call the meeting to order. I'd like to thank the Treasurer and his staff for attending this afternoon as we review the drafts and business plan for the Alberta heritage savings trust fund.

Jim, what we would advise you is that we are an informal gathering, and you are invited to make some opening remarks. Actually, first we'd like you to introduce your staff for the record and also make some opening remarks. Then we'll open it to the committee for questioning. Rather than any sort of formal structure, I'm going to attempt as best I can to keep track of a speakers' list, and then we'll just deal with it that way until all of the questions have been answered or until 4 o'clock, whichever first occurs. You've been in these situations before, so you know that in the thrust of debate your answers will sometimes dictate the length of our discourse this afternoon. So please feel free to proceed.

MR. DINNING: Mr. Chairman, it is a pleasure to make my first and hopefully my last appearance before this reconstituted Alberta Heritage Savings Trust Fund Committee. I have with me three colleagues from the department this afternoon: Deputy Provincial Treasurer Al O'Brien; the Assistant Deputy Provincial Treasurer in charge of Treasury operations, Robert Bhatia, on my right; and the chief investment officer, Stan Susinski, who is responsible for not only the heritage fund investment but the investment of the other funds for which Treasury is responsible.

I have before me really a 16-page document, a heritage savings trust fund draft business plan, which we bring to this committee today with the trust that you'll review it and ask questions about it, debate it, and in the end, hopefully even today, if you can see it that way, approve it, confirming this business plan.

I won't go through the whole report in detail. I needn't go through all of the history of the fund, but as you well know, we began a public review during '94-95, and we had investment dealers do a review of the financial investments. They did so in December of 1994. There was then a public review where you, Mr. Chairman, and some of our colleagues from the Legislative Assembly went about the province and met with hundreds and hundreds of Albertans at public meetings and heard from them in response to a questionnaire. Clearly, the review committee came back with the five recommendations at the bottom of page 1, top of page 2.

1. The Fund should be retained, but not at the status quo.
2. [It should be operated] at arm's length . . .
3. Private sector investment managers should be involved in [the] investment . . .
4. The Fund should be more transparent; the Fund's managers should be more directly accountable to the people of Alberta.
5. The role of government is to set objectives for the Fund.

We took your report, Mr. Chairman, your committee's report, and introduced a piece of legislation in the spring session, that came into force some 21 days ago, that established that the Treasurer is responsible for the management and investment of the fund's assets, set out a new mission of the heritage fund, which is described on page 4 and is in the preamble to Bill 32, the heritage fund Act.

The mission of the Heritage Fund is to provide prudent stewardship of the savings from Alberta's non-renewable resources by providing the greatest financial returns on those savings for current and future generations of Albertans.

We established a new structure for the fund, where the fund's assets are over a 10-year period transferred from the current transition portfolio to an endowment portfolio, by 2005; set out separate objectives for each of those two portfolios; specified a minimum annual transfer of \$1.2 billion of assets from the transition portfolio to the endowment portfolio; and provided for the heritage fund to retain sufficient income to offset inflation.

It's a well-known fact, Mr. Chairman, that the heritage fund is an important part of the province's consolidated financial picture. We use the consolidated heritage fund income. It's included in the determination of the province's budgetary revenue and therefore its budgetary surplus, and the heritage fund assets themselves are netted off the gross liabilities in determining the net debt position of the province as approved by the Balanced Budget and Debt Retirement Act approved by all Members of the Legislative Assembly.

On page 4 we go into the heritage fund structure. I remind you that our gross annual income to the heritage fund is about \$900 million. The net, after consolidation, is more in the order of 700-plus million dollars, and it's ranged anywhere from \$566 million to \$800 million over the last five fiscal years.

Clearly, as we set a strategy or an objective of maximizing long-term financial returns, it's not likely that the heritage fund would generate that level of income over the next three years simply because to do that you must invest in equities – and there are people around the table far smarter than me when it comes to investments – and the dividend rates are generally lower than the fixed interest rates, which thereby provides lower current income. And, of course, the timing of realizing capital gains is not certain; it's not predictable. It's as markets vary.

Clearly, with equity investments our income is more variable, but we still must have that income. That's why we've provided for the orderly transition between the need for current income and long-term investment goals, moved it from the transition portfolio to the endowment portfolio. As I said earlier, each one would be managed independently to meet its own specific investment objective, and each will have corresponding performance measures. I'm going to ask Mr. Bhatia to walk us through that when we get to that point, as it relates to pages 8 and 9. The transition portfolio is going to be much like the old financial investments of the old heritage fund, which is primarily interest-bearing securities with a focus on generating current income to support our fiscal plan, and the endowment portfolio will be a more diverse portfolio, including interest-bearing securities, Canadian equities, and international securities, again with the longer term objective.

As it's noted on page 6, Mr. Chairman, the heritage fund will be inflation proofed. It's required in the heritage fund, beginning in the current fiscal year, that for any amount of surplus over and above \$500 million the next chunk of cash must be put back into the heritage savings trust fund so as to inflation proof it against the national GDP deflator. That means a reinsertion of about \$142 million this year into the heritage fund. So the heritage fund in fact, in nominal terms, will once again begin to grow currently, and in real terms it will now stay even with inflation, whereas for the last number of years it has for all intents and purposes been dropping because inflation has been nipping at its heels.

We've spelled out on pages 7, 8, and 9 the legislative investment objectives of the transition portfolio and the endowment portfolio. Rather than go through the details at page 7, perhaps what you'll let me do is turn the mike over to Robert Bhatia, who will lead us through to goal 1 on the earning income to support the government's consolidated fiscal plan. I'd then ask Stan Susinski to comment on goal 2, which is on page 9, if I may, Mr. Chairman. Then I'll pick up on pages 10 through to the end.

## 2:10

MR. BHATIA: Thank you. As the Treasurer indicated, on page 7 there's a bit of background given about the transition portfolio objective. The transition portfolio objective is, as indicated in the heritage fund Act: investments to be made to support "the Government's short-term to medium-term income needs as reflected in the Government's consolidated fiscal plan."

The goal on page 8 is really the operationalization of the goals stated in the legislation. In providing income to the government in a context where the government also has significant debt, we concluded with the advice and input from others, including a major investment bank, that the appropriate way to strive to achieve that goal of providing income was to link the management of the transition portfolio of the heritage fund with the management of the province's debt.

Using some analytical techniques developed by the Union Bank of Switzerland, which used computer simulations to look at the patterns of interest rate and foreign exchange rate movements over a past period, we developed what we refer to as a benchmark portfolio for our debt. The benchmark portfolio is really just a combination of fixed and floating rate debt and Canadian and U.S. dollar debt, that should provide an efficient trade-off between low-cost and low-risk management of our debt. The benchmark consists of a percentage or an average term. You can look at it as a target average term for our debt portfolio. For Canadian dollar debt the acceptable range of term was agreed to be between three years and four years on average, with a midpoint of three and a half years. We will manage our debt within that range of a three to four years' average term, and we will manage the heritage fund transition portfolio within that same range.

The objective of the transition portfolio will be to earn a little bit higher return than what the cost of that benchmark would be. The objective of our liability management program will be to achieve a lower debt cost than the benchmark. So if the asset managers do their job and earn a higher return than the benchmark and the liability managers do their job and earn a lower return than the benchmark, then the transition portfolio will earn a higher return than the cost of our debt. As we have proposed it here, we will have achieved our objective of earning income to support the fiscal plan and, we think, in a way that makes sense given that the province also has debt.

So that is rather technical in terms of the steps that we went through to develop the benchmark, but if you think of the benchmark as being a neutral and efficient combination of fixed and floating rate debt or average term of debt, and if we try to do a little better than that on the asset side and a little better, meaning lower cost, on the liability side, we will have co-ordinated the management of the assets in the transition portfolio and the liabilities that we have, the liabilities of the province. So that's what's laid out here.

The other key elements are the general requirement that the investments of the transition portfolio be prudent, that the investments be of a minimum investment grade credit rating, which is a triple B credit rating or better. We have imposed some constraints on the mix of investments so that, for example, no more than the percentages given can be invested, say, in corporate debt or in mortgages, et cetera.

We've also indicated that we will over time be disposing of some of the project investments that we've had in the heritage fund, which are the carryover from the earlier activities of the heritage fund. So those are things like the investment in the Prince Rupert grain terminal, for example, the Al-Pac project, the Millar Western loan, et cetera. Over time we will also be striving

to reduce the investments that we have in Alberta provincial corporations, because for the pure investment objectives that this portfolio will now have, the amount invested in our own provincial corporation investments is more than is desirable.

The other point perhaps to note is that we will measure the performance of the portfolio on a market value rate of return basis, and the reason for that is simply that that is the accepted way to measure returns of an investment portfolio and leads in financial theory to the best long-term results as opposed to other measures that can cause you to take decisions that are less than optimal.

MR. DINNING: Mr. Chairman, if I may, I would in turn ask Stan Susinski to take you to page 9 and go through that. I'll comment when he's finished.

MR. SUSINSKI: Thank you. I guess the framework we were looking for in goal 2 was to have a prudent investment policy overall and have an endowment structure to provide an ever increasing flow of income over a long period of time. In looking at structuring these, we had Frank Russell survey the industry, the endowment industry in Canada and the United States, and give us their recommendations and some background material on this subject. Basically, this generally follows what they had recommended and found out was going on in the industry in that we would likely have a balance between debt investments and equity investments somewhere around 50-50 with enough latitude to take advantage of what we perceived to be market opportunities. So you can see that we are looking at the asset classes and equities ranging from 35 percent to 65 percent and the same for debt securities.

What we are attempting to do here is to have a diversified asset mix representing various areas of the market to reduce the volatility and provide for stable income over a long period of years. Of course, the idea of building up the endowment fund slowly over a 10-year period was to allow for a gradual increase in the equity component of the overall fund.

Frank Russell had pointed out to us that based on some long-term actuarial studies going back to 1924, if you had a 50-50 split, you should perhaps get a real return of around 5 percent. That of course is open to discussion and so on, and that hasn't been the case in the last 20 years. Basically this is the framework that's set out here. So equities would return you a net 7 percent, and bonds would return you, net of inflation, 3 percent, and on average you'll get your 5 percent. Through superior management you'll add another half point to get the 5 and a half percent. That's basically the rationale in terms of setting the standards.

If we look at the performance measures and the benchmarks that are listed there, these are not unlike the sort of framework you would find in any major pension fund or endowment fund. What we've done here is set out what would happen if you invested in these various indexes in the amount set out there, which would be sort of the midpoint of all the ranges. So if you had a theoretical portfolio and your asset mix was as laid out there in the third column and you achieved the benchmarks as by reference to these various industries, you would come up with the rate of return. This is the standard by which we'll be measured. Of course, we will not have our portfolio looking like that all the time. We will try to be taking advantage of what we perceive to be opportunities in the marketplace, so our asset mix will vary from that listed on the table.

I think those are all the comments I'd make in a general sense.



2:20

MR. DINNING: Mr. Chairman, one thing about the endowment portfolio that I will acknowledge is that in spelling out an outcome, the adopted asset mix policy set out under the strategies and outputs would then result in an expected real return from the portfolio of 5 and a half percent per year over the longer term, less than 10 years, if these historical return patterns continue in the future. I acknowledge that that is quite a stretch target. We've done that before, setting stretch targets in the provincial government, and I'm confident that my colleagues around the table are able to do that. But I wanted that read into the record so that when the Provincial Treasurer next appears before the committee to account for the performance of the heritage fund, it's acknowledged from the start that it is a stretch target and that of course when they return with a 10 percent rate of return over that 10-year period, you will reward them handsomely, but perhaps when they come back at only 5 and a quarter percent, you will spare them at least their lives.

Just a couple of final comments, particularly as it relates to goal 3 at page 10. This is something that you told us, Mr. Chairman, coming back from the review committee along with your colleagues on the committee and which we all know is a blinding glimpse of the obvious, that Albertans are looking for an improved understanding of the heritage fund and a greater transparency of what the fund is all about. I think that's a role this committee can play.

Clearly the mandate of the committee is spelled out in clause 6(4) of the legislation, where it says that the committee is

- (a) to review and approve annually the business plan for the Heritage Fund;
- (b) to receive and review quarterly reports on the operation and results of the . . . Fund;
- (c) to approve the annual report of the Heritage Fund;
- (d) to review after each fiscal year end the performance of the Heritage Fund and report to the Legislature as to whether the mission of the Heritage Fund is being fulfilled;

and lastly along these lines,

- (e) to hold public meetings with Albertans on the investment activities and results of the Heritage Fund.

I would hope that this committee would take that objective to heart and assist the Treasurer, indeed assist the government, in telling Albertans about the fund – its benefits, its success, its progress – and where it falls short. Shine light on that.

Clearly, the outcome is an improved understanding by Albertans of the management and the operations and the performance of the fund. We will have an annual report in your hands before June 30 of each year. Quarterly reports will be released within two months of the conclusion of the quarter, and then we'd ask you to consider, with our assistance in any way that we can, how in the fall, say after the summer break, the committee might then have a chance to go around the province and hold what some might call annual meetings, regular meetings, to inform Albertans about the fund. If it's the committee's wish in discussing this matter that you would ask the Treasury to come back with alternatives, options, recommendations as to steps that we can take and help you take to enhance the communication of the fund, then I would invite you to make that recommendation or direction, and we will perform.

Just one last thing as it relates to management and accountability. Clearly this is an oversight committee. Following your committee's review, we felt that an oversight committee of Members of the Legislative Assembly was essential, providing overall direction and an ability to evaluate the performance of the fund and report to Albertans on it.

There will be appointed an operations committee, that would be advisory only. It will not be a management committee. It will be an advisory committee to the Treasurer, chaired by the Deputy Provincial Treasurer, made up of primarily private-sector businesspeople from across the province and providing advice, as is stated on pages 14 and 15. It will "review and recommend the Business Plan to the Provincial Treasurer." It will "review and recommend the investment policy statements" for both portfolios. It will "review and approve the financial statements and recommend the annual report." It will "approve the quarterly reports for transmittal" to this body and then advise the Treasury "on the extent of use of external managers and the criteria for [their] selection." The ongoing investment management decisions and investment day-to-day decisions will be made within Alberta Treasury, and the Treasurer will be accountable to the Assembly, to this committee, and indeed to the people of the province for the fund's performance.

Mr. Chairman, I think the rest of the document is pretty self-explanatory. The allocation of responsibilities is spelled out very clearly.

Just to close my formal remarks, I say to you, Mr. Chairman, and to all of the other members of this committee that I thank you for your agreeing to serve. I think that this is still an untold, well-kept, secret perhaps, not a well-publicized success story in the province of Alberta. There are very few other jurisdictions across the globe, let alone in Canada, who can boast of the kind of savings account that this province has seen fit to create. I'm proud of the fact that the Legislature, on the recommendation of the government, endorsed a law that saw that important nest egg begin once again to grow in nominal terms and at least stay current in real terms. Then over time we will see even an improved financial position for the heritage fund. I think it took courage, but it was at the behest of Albertans, as we've learned from the review committee that traveled the province and came back with that report under your direction. Again, to all members of the committee, I thank you for your willingness to serve on this important committee.

THE CHAIRMAN: Okay. Thank you, Mr. Treasurer.

We'll get to the speakers' list. As of right now I have Mike Percy and Victor Doerksen. Mike, will you begin, please.

DR. PERCY: Thanks. A couple to start off with, just small technical questions. On page 8, under goal 1, when you look at performance measures and benchmarks, the benchmark discussed there is "the market cost of the Canadian dollar portion of the province's debt portfolio." What is the mix right now between U.S. denominated and Canadian?

MR. BHATIA: Roughly two-thirds Canadian, one-third U.S.

DR. PERCY: And is there any reason that the benchmark doesn't reflect that? Is it concern over foreign exchange rates?

MR. BHATIA: Yeah. We have U.S. dollar debt of course, as you know, because we have U.S. dollar denominated revenue, or revenue that's directly linked to the U.S. dollar. So the foreign exchange fluctuations on that debt are offset by the corresponding fluctuations on the revenue base. It wouldn't make sense, we believe anyway, that we should put in place assets denominated in U.S. dollars that also were intended to fluctuate with the U.S. dollar, because we would then be offsetting a risk on the debt which is already offset by the revenue stream. So we just set the U.S. dollar debt aside and look at the Canadian dollar portion of

the debt and say: focus the heritage fund transition portfolio on bettering that portion of the debt.

DR. PERCY: The second question relates, then, to goal 2. As the province makes the transition to a larger endowment portfolio, the importance of equities, investments will increase, and the province is going to be on the horns of a dilemma. On the one hand, it will be a passive investor in most cases. It won't be like the *caisse de dépôt* and attempt, then, to intervene. But on the other hand, as a passive investor, that often means that those types of firms are run for the benefit of management as opposed to for the benefit of the shareholders. One of the sticks that a shareholder has is to either sell or become a little more active. So how do the managers intend to deal with that problem that faces any large investor in equities? You know, passivity is probably the role that most people would want their province to play in these types of investments as opposed to the outcome it generates for management.

2:30

MR. SUSINSKI: I think that maybe it's not quite right to say that we'll be passive. It will be an actively managed account in the Canadian equity and in the foreign markets, so we will be doing our buy or sell activity based on what we think makes good sense investmentwise. I don't really see much conflict in terms of our market action relative to . . .

DR. PERCY: By passivity I guess I meant that if you have 10 percent of a firm – as a shareholder you sometimes are entitled to a seat on the board, for example, and it's clear the province probably would not go that route, but as an investor holding 5 or 7 or 10 percent, if you're passive, then you lose in one sense, because management then runs the firm for its own ends, which sometimes aren't maximizing shareholder value in the longer term.

MR. SUSINSKI: If we thought that was the case, then our choice would be to sell the stock and look for another company that is looking after the interests of the shareholder.

In terms of the 10 percent, the markets have gotten so large in the last five years and there are so many players that I don't see that being a problem for many years to come.

DR. PERCY: So there is a commitment, then, that the province will be a passive investor, investing only in those firms that seek to maximize shareholder value?

MR. SUSINSKI: Yes.

MR. DINNING: We're out of the policy investment business in heritage.

DR. PERCY: One other question that relates in more general terms, then, to the distinction between the oversight committee and the operations committee. On page 10 the business plan says: "An Operations Committee will be established," et cetera. Then one of the mandates of that operations committee on page 15 is to "advise on the extent of use of external managers and the criteria for selection." My point would be the extent to which the fund then is in part privately managed and in part managed by the government through its entity, its own financial asset managers. I mean, that's a political decision really. It reflects people's perceptions about the market, the role that the private investor should play. I would think you'd want that particular function to

be given to the MLA committee as opposed to delegating it to the operations committee, because it is essentially a political decision as to the mix.

MR. DINNING: What is?

DR. PERCY: "The extent of use of external managers and the criteria for selection." I would think that's something that the MLA oversight committee might want to set guidelines for. Then that would go to the operations committee. As it stands now, the MLA committee may have something to say about that after the fact, when the business plan then comes back for subsequent review.

MR. O'BRIEN: You know, I don't think it should be a political decision if the Legislature and this committee agree that the goal is to maximize the return and if there are meaningful measures to measure the success. The decision of whether you will be most successful in achieving those targets through the use of external managers or through the use of government employees strikes me as a management decision. I realize that on some aspects of delivery of government services there are elements sometimes of policy views, but if the agreed objectives and measures are to maximize the return, then it's a quantifiable issue. The Treasurer will be accountable for their performance, but it seems to me that the Treasurer and the Treasury should make that decision based on quantitative assessments of costs and benefits of one mode of doing the job or another. Just as if you were sweeping the floor, you may decide it's more efficient to hire someone else to sweep it, or you may decide, if you could, to have the minister sweep the floor. In this context, if we're agreed on the objectives, it's not a political issue.

DR. PERCY: Just a final question: what is the share that's presently managed, then, by private-sector managers? One thing the committee did hear is that many people want much greater private-sector participation in the management of the fund.

MR. DINNING: Right now none of the heritage fund itself is privately managed. There are other portfolios, funds, that Stan's group is responsible for that use external managers. So we've got some experience there that we will move onto the table.

I would say, Mr. Chairman, that clearly our responsibility will be to put to the committee the experience, the progress, the track record of not only those funds but the funds that are internally managed vis-à-vis those that are managed by any and each of the external managers. So that kind of information would have to be segmented.

THE CHAIRMAN: Okay, Mike?

DR. PERCY: Yeah.

THE CHAIRMAN: Victor.

MR. DOERKSEN: Thank you, Mr. Chairman. Realizing this is the first of many business plans that we're going to see on the heritage savings trust fund, I do have some comments about things – and maybe you can answer them – that could be included in the future that I think are important.

One of the things I like about the presentation of our budget in years past and the page I most often look to because it gives you a good idea as to whether we're on track or not and reaching our targets – and anybody can figure out whether our surplus is going



to be higher or lower than the current projections by looking at the page of assumptions under which the plan is built. What's missing from this one is any assumptions with respect to long-term interest rates, short-term interest rates, inflation projections, and perhaps even exchange rates. We have to remember that the public needs to understand this business plan as well as sophisticated money managers. In goal 2 we have stated as an outcome on page 9, for instance, 5.5 percent. Yet if you go to page 12 and look at some of the assumptions for the endowment portfolio and equities, you might look at that and say that that's going to be much higher than 5.5 percent. So on one page we're talking nominal rates; on another page we're talking real rates. I'd like you to make some comment with respect to assumptions.

MR. DINNING: Mr. Chairman, one of our problems is a bit of a timing problem. Here you have this plan. You're right; we have to figure out how to connect this information with our own budgetary information. I have parts of the '97 provincial budget in front of me that spell out exactly what those assumptions are, and they are lumped in with this one. I'll give them to you on budget day. That's a very good question: how do we merge these two documents? We'll carefully consider that.

MR. DOERKSEN: All right.

Just going back to page 9, there are a couple of terms in here that might be helpful for a reader to understand what we mean by real return on a portfolio, what we might mean by long term in terms of a real return. Maybe that is something we could clarify down the road.

2:40

MR. DINNING: Yes. Mr. Chairman, that's an excellent suggestion from the hon. member.

MR. DOERKSEN: Thank you. I do have more questions, but I'll turn the floor over to other people, if you like.

THE CHAIRMAN: Okay.  
Peter Sekulic.

MR. SEKULIC: Okay. Just a couple of quick points. On page 7 where you ask the question of what the best approach is in achieving the investment objective and measuring performance, you go on to say in the first paragraph: "Alberta Treasury, with the assistance of a major international investment dealer . . ."

MR. DINNING: I'm sorry.

MR. SEKULIC: Page 7. It's the first paragraph there, where it states: "Alberta Treasury, with the assistance of a major international investment dealer." I'm just curious. Because you have a record of trying to be as open as you can, why would you withhold which international investment dealer you're referring to?

MR. DINNING: We'll tell you that. It's the Union Bank of Switzerland, and we just decided not to give them too much publicity or too much advertising.

THE CHAIRMAN: I think Robert in his remarks, we will see, answered that.

MR. SEKULIC: He made that comment?

MR. DINNING: Yeah, and I'm not sure why we didn't include that, Peter.

MR. SEKULIC: I was just curious when we were referring to the business plan.

MR. DINNING: Stan mentioned that Frank Russell provided advice on goal 2, on the endowment portfolio, about UBS, and we've worked with Paribas and others in the past. We don't normally disclose that, but if you feel that that would add value and merit to the piece, then we could.

MR. SEKULIC: You know, I think that anytime we're getting advice from someone, we owe it to Albertans to inform them as to who we're relying on.

MR. DINNING: On both sides of the Assembly.

MR. SEKULIC: On both sides of the Assembly; that's right.

The next question I have is with regards to – it's actually page 10 I'm referring to now. It's the operations committee, where the operations committee will include yourself and "a majority of private sector members" – and you said from the business community – "with relevant financial and business expertise." I can appreciate the need for that kind of expertise. The question I have is: are there any mechanisms in place to prevent potential conflict?

MR. DINNING: Yes.

MR. SEKULIC: If so, when would you share them with the committee?

MR. DINNING: Peter, I would suggest surely that they would operate under the same conflict of interest rules that the members of the public service would operate under. I'd better be careful, but clearly we would present those and bring those to the committee so that the committee has the confidence that those members are not benefiting by their membership.

MR. SEKULIC: Or are not perceived to be benefiting, which is equally important.

MR. DINNING: Yes. Fair. That's why that is a difficult call. Clearly, we do need that outside expertise and advice, but we'll be very aggressive about the matter of conflict of interest.

MR. SEKULIC: Just for the record, there was no intention to slight my hon. colleague from Calgary-Shaw. In fact he did not do anything wrong.

The next comment that I have is with reference to the foreign investments. Initially they'd been limited by regulation to 20 percent. You explained, I think on your opening page of the background, that flows along the same lines as personal RRSPs, that only a maximum of 20 percent could be foreign. If it's regulation that is preventing that, that means the department could change that without any consultation with the committee. I'm just wondering: is that something the committee should be involved in? Is it reasonable? Like, is that a reasonable limitation even within regulation? The personal RRSPs are limited to 20 percent foreign investment. Why would we have the same kind of constraint? If the goal is to maximize profits on behalf of Alberta taxpayers, why would we bind our hands with this restriction by regulation or otherwise? I'm sorry; I'm referring to page 9. It's

point 2 and also in the backgrounder.

MR. DINNING: Yeah. I'll ask Robert to comment. The fact is that the regulation is not the whim of just the Treasury or the Treasurer. It's a regulation, a cabinet regulation. It's passed by the Lieutenant Governor in Council. So in that sense it is a public exercise. I'm trying to think of the chronology here.

MR. SUSINSKI: Frank Russell commented.

MR. DINNING: Frank Russell commented, but did I not bring it to this committee as a paper? Or the paper was made public.

MR. BHATIA: Yeah. I believe the paper that was made public almost a year ago contemplated the 20 percent limit. I can't be sure whether that was discussed with this committee.

MR. DINNING: I know it was discussed with other committees.

MR. BHATIA: I think it was tabled at the previous select committee.

MR. DINNING: Stan, would you like to comment just on the 20 percent rule?

MR. SUSINSKI: Yes. Okay. The 20 percent rule is under the tax ruling in Ottawa of course, and it has to do with pension funds and pension benefits. I think it was felt that initially 20 percent would be a good standard to work with for this endowment fund. I don't think it was ever expected that it would remain at 20 percent for all time. In fact, the wording here says, "Foreign investments will initially be limited . . . to 20%." So I presume that is a matter that will be looked at a couple of years down the road when we got rolling and people got comfortable with what we were doing. At least I would view this as a good sort of jumping-off point.

MR. SEKULIC: I guess I didn't find the congruency there when I listened to some of your earlier comments, where you said that one of the primary objectives was to pursue opportunities in the marketplace. This seemed like an arbitrary restriction to pursuing them. So it's one or the other, but I don't know that it balances.

MR. DINNING: It's a bit of a balance issue because this is the Alberta, comma, Canada heritage savings trust fund. Alberta is part of Canada. It's a balance call really because there are some people who would say, "No foreign investments." Hopefully, they won't get elected to the Legislative Assembly of Alberta in the forthcoming election. There are some who would advocate that, and there are others – maybe you and Stan are among them – who would say: "No limits. Let us just go and run and max the return." Again, that's probably the political public policy imperative saying: "Twenty percent is a good starting point, and we'll see how that goes. Take this baby out for a test drive and see how she rides."

THE CHAIRMAN: I want to add, though, for the record just as the chairman of the standing committee the other aspect of Peter's question, and that is that at some point in time and hopefully today this committee is going to be asked to approve this business plan. Right now this business plan is saying initially 20 percent. So if we approve that business plan, we are not going to be very happy if the cabinet comes along just shortly thereafter and starts to change, then, aspects of the business plan.

We look at a business plan on a year to year to year to year basis, and I think this will probably evolve on that kind of a basis. So certainly I think we should as standing committee members feel comfortable, you know happy, with the initial 20 percent. That's what we're going to be looking at in this business plan.

MR. DINNING: I'd say, Mr. Chairman, that I can make the commitment that a Treasurer is most unlikely to be recommending to his cabinet colleagues an amendment to the regulation before consulting with this committee.

THE CHAIRMAN: Okay. Thank you.  
Peter, anything else?

MR. SEKULIC: I'm just, I guess, recapping that just as we do with debt, investment is a financial instrument with no emotions, no feelings attached, and you want to go in the best financial interests of Albertans. I think this may act in a political manner that may appease a number, but in terms of a financial approach, I have to say that I disagree with constraining the investment in this manner. Those are just my comments.

2:50

THE CHAIRMAN: Okay. Fair enough.  
Jon Havelock.

MR. HAVELOCK: Well, thank you, Mr. Chairman. Like our right-wing Liberal colleagues I'd like to direct your attention to page 15 with respect to the use of external managers. I just need some simple clarification. I would assume that the process itself of actually providing advice or recommendations will be a reasonably transparent and fair process, because, let's face it, even though we're going to have some reputable businesspeople on this committee, like politicians they, too, play politics. If I'm reading this accurately, they are providing advice on the use of external managers and the criteria for selection, but they are not going to actually provide advice as to which managers should be used. Is that correct?

MR. DINNING: That's correct.

MR. HAVELOCK: Okay. So essentially, then, the way this is set up at this point in time, it will be the Treasurer's decision as to which manager or managers will be hired.

MR. DINNING: Based, again, on the criteria that we get advice on. That's correct.

MR. HAVELOCK: Okay.

The other issue, just to respond to Mr. Sekulic. While I, too, have invested in a lot of interesting things, I think that probably to start off with, it is advisable to keep the foreign content at 20 percent, at least initially. However, we also need to recognize, Mr. Chairman, that if cabinet wishes to change that, they have every right to do so, because as with any business plan that is placed before cabinet, they can make amendments. Despite our unhappiness it has happened in the past, and I'm sure it will happen in the future.

MR. DINNING: If I can refer to a document that's dated January 24, 1996, just 363 days ago, we acknowledged that the objectives were to maximize long-term return, to support medium-term income needs of the plan, and protect fund assets against effects of inflation. We did acknowledge there were some constraints.



One is that "the Fund's investments will be based solely on fundamental investment principles and strategies," that there would be no economic development investments and no social investments – i.e., no Alberta investment division or capital projects division investments – and that foreign investments would be limited to 20 percent of fund investments. This was circulated and taken through a number of committees, and I'm very certain I brought it to the previous committee. So the 20 percent is not a new rule. Two members of this committee have given sort of balancing views as to why 20 percent is probably a good place to start initially.

THE CHAIRMAN: Okay. Thank you.

MR. HAVELOCK: I thought my view was much more balanced.

THE CHAIRMAN: We'll determine that later, Jon.

MS CARLSON: My first question is on appendix A in terms of the standing committee reviewing the performance at the end of each fiscal year. Mr. Treasurer, who did you expect us to be able to call on: just yourself or other members of the Treasury Board?

MR. DINNING: To review and approve annually the business plan of the heritage fund?

MS CARLSON: Right.

MR. DINNING: The Treasurer does bring forward that business plan, so it's the Treasurer that would be accountable to the committee.

MS CARLSON: And only the Treasurer.

MR. DINNING: Yes.

MS CARLSON: Okay.

My second question, then, has to do with a point that Victor brought up in terms of defining some of the terms in this business plan, and also I would like to include the annual reports. I think that there's been a great deal of confusion in the general public specifically with regard to debt, and I would like it to be a recommendation of this committee that determined definitions, that Victor asked for, including debt, where we talk about any amount of interest owed by the province being part of our debt, be included in both the annual report and the business report.

MR. DINNING: Mr. Chairman, that's a really good suggestion. If you turn to the last three pages of the annual report, beginning on page 80 of the annual report in your binder, there is that glossary of terms. You can make it a recommendation if you wish, but before the document is finalized, we'll make sure there is a glossary of terms as an appendix. That's a very good suggestion.

MS CARLSON: Who will the plans be available to throughout the province? Part of goal 3 is to publish them, but who will have access?

MR. DINNING: Well, just as this is a public meeting, our objective would be that this would be published separately and available to all Albertans and to anybody who wants it. It would be included in the budgetary documents when they're released for budget day, scheduled for February 20. Then, again, I think

that's where we can get some advice, when we need to go get some better advice and suggestions and bring them back to this committee and ask you to give us some direction or suggestions as to better ways to improve the communication of the fund, including this business plan and its outcomes as part of that mandate that you have, especially to hold public meetings on the activities and results of the heritage fund.

MS CARLSON: Do you have any expectations in terms of how we should be conducting the public meetings and gathering input?

MR. DINNING: I haven't allowed my mind to wander to that task yet, but I think it's something that begs a certain amount of creativity. You know, this is a substantial, significant financial asset that Albertans told us in many ways they're darn proud of: "Don't get rid of it. Just manage it differently and make sure it's managed not politically." So I think it begs a certain amount of creativity. We should be able to come back with some of those ideas, and knowing the brains on this committee, we should be able to come up with a few gems that will dazzle Albertans with their bejeweled heritage fund.

MR. HAVELOCK: Nothing like setting your expectations.

THE CHAIRMAN: Yeah. Right.

DR. PERCY: First, a point of clarification. When I said that it's a political decision, I meant in the philosophical sense, your perception of the mix that you want managed and the role that the private sector plays. I certainly meant in no way the expectation of who would in terms of the private sector. I think many of these issues, in terms of the shares that you want, whether it's 20 or 80 – I mean, ultimately that's an issue of accountability and an issue of why you elect politicians. They're ultimately accountable, and if you have an oversight committee with politicians on it, they're carrying the can ultimately. Certainly the Treasurer is first in line to carry the can. So by "political" I meant in the philosophical sense as to the mix.

The second question relates to the mix of the endowment fund. One of the characteristics of the Alberta economy is not only that it's highly volatile but that many sectors of the Alberta economy are highly synchronized and move very closely with energy prices. What you would want, then, in some type of endowment fund as well to insulate you from that is an endowment fund that would be countercyclical or off the particular resource price cycle and perhaps heavily weighted in those things whose returns are negatively correlated with movements in energy prices.

I was just a bit amused when I was looking at this that actually about 15 percent, 18 percent of the common stock investments were still in fact in energy or energy-type investments. I was just looking at the equities: metals and minerals, gold and silver, oil and gas, paper and forest products, some of the industrial products, pipelines. To the extent that you're in one sense trying to insulate the Alberta economy and ensure an endowment fund that will be there in the longer term when oil and gas run out, to the extent that you have your endowment fund invested precisely in those types of resources, you haven't given yourself a lot of insulation from the very thing you're trying to protect yourself against. So how do you get that mix right?

MR. SUSINSKI: I guess I could answer that by saying that the existing portfolio is certainly not the way we're going to run it in the future. It is true that the Canadian stock market is very much resource dependent. That is one of the difficulties with equity

investments in the public market in Canada. You do have to be prepared to buy the banks and the resource stocks. They dominate the index. A lot of the other companies are held by other interests and so on. They're just not available. So that is one of the compelling reasons to invest abroad: to get a broader mix of assets. We will try and overcome that by real estate investments in other parts of Canada, mortgage investments, and so on. It is a characteristic of the Canadian market, and there's not much we can do about it.

3:00

DR. PERCY: I would just add my voice to that of my colleague Peter in terms of looking at the 20 percent as being flexible and not being an upper limit in the longer term, given that one of the goals of such a fund ought really to be to diversify us out of the type of risk we intrinsically face.

MR. DINNING: On the other hand, you know, a number of the companies that you refer to are companies enjoying a certain amount of success these days. Not only are they heavily weighted on the TSE index, but they are enjoying a modicum of success, and we would not want to be underexposed to that success.

DR. PERCY: No. It's a real dilemma.

One other issue comes to mind then. To the extent that this is a pool of liquidity and is looked upon as a means certainly not only of returns to the province and residents of the province, there come about opportunities possibly to invest in the ASE. How do you do that? You have an operations committee that's going to be probably pretty tight with the Calgary financial community. At the same time there may well be very profitable opportunities existing on the ASE. How do you set up a buffering mechanism so that those opportunities can be invested in, at the same time protecting all of the participants from any sense that it's not necessarily fair?

MR. DINNING: Remember, again, that the operations committee is not going to be in the business of selecting investments.

DR. PERCY: Right. It'll be the manager.

MR. DINNING: It is the investment manager or in this case an external manager, and an external manager will not be a member of the operations committee.

DR. PERCY: I bring this up because on the one hand, while I think there is a very legitimate role for private-sector managers to play, you run into this very problem head-on then, because they're going to be part of the financial community in Alberta, and there will always then be the problem of conflict. So I don't know how you get around it. Certainly when you look at the returns on the ASE over the past year, there have been some very good firms there, and you would want to invest in them. You would have wanted them as part of your portfolio possibly as a short-term investment. In the longer term probably not, if you want to insulate yourself from risk. I mean, that's a problem that I think the managers of the fund will run into head-on trying to get those Chinese walls in place.

MR. DINNING: Again, it's got to be clear that the operations committee is not going to be selecting stocks. They're there to provide advice, just as this committee is to provide oversight, and we would not intend putting them in that indelicate position. You know, we could select an operations committee made up purely of

business and economic faculty members from the universities, but we wanted to make sure we maximized the amount of good advice that we got.

DR. PERCY: One other question that just relates to the management of the endowment fund. So you'll have the managers within Alberta Treasury. They'll rely on their own professional instincts, but they'll also rely on advice from other fund managers that they'll contract with. Is that essentially how it's going to work?

MR. SUSINSKI: Yes, and other consultants.

THE CHAIRMAN: Okay, Mike?  
Victor.

MR. DOERKSEN: Mr. Chairman, I'll pass.

THE CHAIRMAN: Okay.

MR. SEKULIC: These I guess are points of clarification. On page 8 one of these strategies/outputs is to "invest in interest bearing securities that are rated at time of purchase a minimum of investment grade (BBB or equivalent)," and then it goes on to say, "by a recognized rating agency or in the absence thereof by Alberta Treasury." I'm not familiar with how frequently one of our investments would fall into that category where it would have to be graded by Alberta Treasury. Is that commonplace?

MR. SUSINSKI: Well, not common. It would be under 10 percent. I don't have a number. Most of the securities we purchase are rated by a recognized agency, but we don't want to prohibit ourselves from looking at a security and passing it simply because it isn't rated by a recognized agency. We do have credit analysis capability within the department, and we do a lot of work ourselves in terms of rating and checking our ratings against recognized services. Basically, the recognized services are usually rating the credits that are in the higher quality range, but there are a lot of very good credits that do not get rated for one reason or another. One reason might be that they don't want to pay a fee to the rating agency. The rating agencies do not rate securities for nothing. They charge a fee to the issuing corporations. Some corporations feel quite strongly that they can sell their securities in the marketplace without going through the process of getting them rated, and they may be aiming their securities at institutional investors such as ourselves who have the capability of rating the securities internally.

MR. SEKULIC: Thank you.

The next question is to the Provincial Treasurer. I'm trying to frame a context for my constituents within which they can understand the new role of the Alberta heritage savings trust fund. It's basically, I guess, representative of the government's fiscal policy, and in a way they can relate to it thinking of the Alberta heritage savings trust fund as a form of an RRSP. Is that correct? The only problem I have with stopping there is that the RRSP analogy is one lifetime – it's one generation – whereas what we're building is multigenerational. It will pass over time. What is the eventual goal? An RRSP: we know that in our later years we depend on it to carry us through days when we're not generating the kind of money that some of my hon. colleagues generate. What do we do with the fund that continues to perpetuate or grow in terms of its returns over time? Surely the Treasurer must have a vision or be getting one right now.



MR. DINNING: I see the day when oil and gas are perhaps as plentiful but not as demanded, when supply will exceed demand. There may come a time when our 20 percent reliance on oil and gas revenues – when we won't have the same revenues, and the heritage fund could become an oil and gas replacement income fund. That's one example.

I had the opportunity to go to the state of Alaska. They invited me to speak at a gathering of a society up there. It's a wonderful place to live and grow a family and fish and all those good things. What I found particularly appealing is that they had no state income tax. They had no sales tax except locally and municipally determined. That was true in Juneau but not true in Anchorage. They paid federal income taxes, and they didn't pay property taxes. So the effective rate of taxation in the state for a family of four after receipt of the annual dividend from the Alaska permanent fund was minus 11 percent. It paid to live there. I can't necessarily foresee such a day in the province of Alberta, but I certainly think that I can foresee a day when that kind of income may be available to assist in the downturns or maybe by way of dividend.

THE CHAIRMAN: Okay, Peter?

MR. SEKULIC: Yeah. This is, I guess, a philosophical area where one looks at the returns over a longer period of time. We don't know how many generations down the road some of these things may be realized. I go back to some of the education and health care concerns that exist. I'm not trying to take a political agenda here, but I am saying that there are some concerns which exist in the current period. This is certainly the first political group that's had the foresight of perhaps 100 or 150 years down the road. We're concerned with the well-being of that generation of Albertans. There may be some needs in the current period that we are restricted from addressing, yet we carry that debt because we've invested in the infrastructure, in the hospitals. So the current generation carries the debt, and some future generation will be debt free with the heritage savings trust fund. Now, that's not altogether wrong, but there are concerns that maybe we're squeezing too hard now and that that could be eased up.

3:10

MR. DINNING: Well, I'll avoid getting into that political debate.

The other thing that appeals to me about this is that this is a capital asset that took hundreds, thousands, millions of years to get created, and then all of a sudden in one generation it's turned into liquid and then cash. The notion that that should be spent, slash, squandered by one generation frankly, to put it bluntly, just rubs me the wrong way. I think that your children and mine and theirs ought to benefit from that capital asset liquidation over the future generations. That's a struggle. But do you know what? It's a wonderful struggle to have, and I think that's going to be the task of this committee, of the Treasurer, of the government, and of the Legislature to address how best to make sure that Albertans benefit from that fund, not just today but down the road as well.

MR. HAVELOCK: Well, just briefly on that point, Mr. Chairman. Actually Albertans benefit from this fund each and every day because there is income generated which goes to the bottom line, and that assists us in holding taxes down. It does actually pay for some of the educational services and health services that we have. So if we're trying to sell this to Albertans, I think, yes, we have to preach the long term. I think there will be significant benefits long term, but we are realizing some short-term benefits

each and every day at this time. That's certainly the way I approach it, and I've explained this to my constituents.

THE CHAIRMAN: Thank you.

Peter, did you have anything more at this time?

MR. SEKULIC: Yeah. I think that we're now limited in the past. In the past 10 or 15 years that certainly has been true and perhaps in excess, and that's why we're so alarmed, and now we're taking a countermeasure. But now we're by law prohibited from utilizing any of those funds for any purpose other than reinvesting. So it's a financial instrument; it's no longer a social instrument. But I do see the long-term benefits of this. Don't get me wrong.

MR. HAVELOCK: But there are short-term benefits.

MR. SEKULIC: I opened up a philosophical debate.

THE CHAIRMAN: You sure did.

Well, we're going to ask Shiraz to bring us back to the business plan here.

MR. SHARIFF: I just wanted to take a couple of minutes to compliment you, Jim, for today's presentation. I get a renewed sense of confidence in where we're going. As a province I believe we have already spent our children's and great-grandchildren's inheritance, and we are correcting that wrong. So I think we are in the right direction. I just want to add one point. I hope for and look forward to a day when we will be free of that initial 20 percent so we can surely correct the wrongs for our great-grandchildren.

Thank you.

MR. DOERKSEN: I was just going to comment on Peter's comment. We don't want to get into that, but just to say that we are doing what the people told us in the task force that we represented in 1995, pure and simple. This isn't a sales job to the public. We're doing what they told us to do.

THE CHAIRMAN: Thank you.

Any other questions for the Treasurer?

DR. PERCY: One quick question. In terms of the functions that have been allocated to the MLA committee – we talked about this this morning – which would involve, then, either tours or some mechanism of reporting on the results, one issue is that you only report to people if they in a sense have a real interest. In Alaska they follow it on a day-to-day basis because it's a significant share of their income. Here they're sort of once removed from it because it's either interest income for the province and people don't really view it as lower taxes – although it is – or they don't see it as a fund that they actually have a share in.

In order to report and to discuss the performance of the fund, you're going to have to distribute the annual report to Albertans in a way that's legible and readable, and clearly that's beyond the resources of the MLA committee and ought to be part of the administrative expenses of the fund. To the extent that any fund distributes shareholders' reports, those are part of the administrative expenses of that fund. I would think, then, that as one looks at how the MLA committee will operate, it has to be the case that people are informed. I know that right now we get a quarterly report on the heritage savings trust fund, but that doesn't get much exposure, you know, a back page in the business section,

not read. So there is an issue there as to how these objectives are actually funded. I think they should be funded as part of an administrative expense of the heritage savings trust fund as opposed to this MLA committee's.

MR. DINNING: I would agree with that. Knowing that fiscal prudence will continue to be the order of the day, the standing committee will approve the annual report of the heritage fund. The heritage fund itself would still be an administrative expense of the fund and of the Treasury, but there are other methods that we think the committee should advise the Treasurer on, how it ought to be relayed to citizens: taking out canvases in the chuck wagon races or skywriting, other methods. The opportunities are without bounds.

MR. HAVELOCK: You're not of course suggesting that because we hold some Hongkong Bank paper, we travel to Hong Kong to discuss this issue.

THE CHAIRMAN: No. We're not going to get into that.

MR. SHARIFF: Mr. Chairman, were you going to suggest that change of date from September to October?

THE CHAIRMAN: Well, that'll be something we will discuss. Thank you very much.

MR. DINNING: Thank you, Mr. Chairman.

THE CHAIRMAN: Why don't we take a two-minute recess while people are leaving, if anybody wants a break.

[The committee adjourned from 3:18 p.m. to 3:21 p.m.]

THE CHAIRMAN: Okay. I wonder if we could come back to order, please.

MR. HAVELOCK: So do you need some motions, Mr. Chairman?

THE CHAIRMAN: Well, let's just talk for a moment. There seem to me to be three issues, for want of a better word, that it seems like we're going to have to deal with that would relate to this report and one that relates to this committee. Starting with the one that relates to this committee and not necessarily to this report is: how are we going to deal with the public? I guess there are a couple of ways we can do that. We can try and deal with that today, or that is something that we could have everyone go away individually, give it some thought, and send your recommendations to the chairman or something to that extent. So I don't know that we have to spend a lot of time on that at this point.

Just from my notes and from your questions – and certainly this isn't meant to be exclusive – it seems like there's the communications of the annual report, there's this glossary item, and then there's this September deadline, so to speak, that's in there. We can deal with these as motions, or we can have a general discussion and see what comes out of it.

MR. HAVELOCK: Mr. Chairman, I thought that the Treasurer indicated that he and his department would take the communication issue back, give it some thought, then come forward with some suggestions, recommendations, on how they would suggest we proceed. At least that's what I heard.

MS CARLSON: I didn't hear that. I heard that he was expecting us to do that.

THE CHAIRMAN: I didn't hear it exactly that way.

MR. DOERKSEN: Yeah. He did make that comment in his opening remarks.

THE CHAIRMAN: Did he?

MR. DOERKSEN: And I think it would be quite appropriate for them to give us some options that we can look at and decide on as a committee as to what direction we want to go.

MR. HAVELOCK: Just to continue. While we can certainly go ahead and think about how we'd like to proceed, it would be premature, I believe, until we've actually seen what Treasury can come up with. Quite frankly, their resources are rather extensive compared to this committee's, so they may well be able to put a little more time and effort into the process.

DR. PERCY: I would like the committee to make the recommendation that a user-friendly version of the annual report be distributed to all Albertans. Two reasons, one of which is that people are detached. They have no sense of ownership of the fund, in part because they don't perceive they get anything directly from it. So it's sort of secondhand ownership. I think the other reason for that is that they don't know what's in it. It will be costly to do that, but any fund distributes information on its performance. If you want to create a sense of ownership by people and thus greater accountability to the electorate, you have to get the information out. So I think we should come forward with that recommendation.

MR. HAVELOCK: Why don't you move it?

DR. PERCY: I move

that an annual report of the Alberta heritage savings trust fund, written in a manner that's informative and easily understood, be distributed to each and every Albertan.

THE CHAIRMAN: Okay. Discussion?

MR. DOERKSEN: The comment I'd like to make on that, Mr. Chairman, is that I think there are different forms of distribution that can be used, and I think what you're suggesting is almost a mail-out to every household in Alberta. Maybe there's a more cost-effective way of doing it that we haven't thought about, such as even through the newspapers, taking out an ad in a prominent place in every newspaper to report it that way. There's also the Internet. There should be a home page on it. I wouldn't want to box ourselves into one distribution method.

DR. PERCY: Okay. A friendly amendment:

that Albertans be informed in an appropriate manner, different from what we have now.

THE CHAIRMAN: All right. Is that agreed to by the committee?

HON. MEMBERS: Agreed.

THE CHAIRMAN: All right.

Now, I think we had his approval that he was going to add the glossary to the business plan, but I think we should make that recommendation. Debby.



MS CARLSON: Yeah. I'll move that we make a recommendation to the Treasurer that he include a glossary in this report.

THE CHAIRMAN: Okay. Discussion? Agreed?

HON. MEMBERS: Agreed.

THE CHAIRMAN: Okay. Carried.  
Now, what about the September date?

AN HON. MEMBER: October.

THE CHAIRMAN: October.

MR. DOERKSEN: With all due respect I think that our first motion, which asked the Treasurer to come back with a plan, should incorporate the public part of it and when these might best happen. I think we're in agreement that July and August aren't appropriate months to attract Albertans to a public type of forum, but I think that should be part of the strategy that they give to us for consideration.

DR. PERCY: In fact that first motion, then, should include not only that Albertans be informed about the performance of the fund in a manner appropriate and readily understood but that a schedule of meetings or its equivalent should also be included so that the MLA oversight committee could both report and be held accountable.

THE CHAIRMAN: Is everybody all right with that?

MR. HAVELOCK: Well, shouldn't it be:  
and include details of the public consultation process,  
as opposed to tying into the schedule of meetings?

THE CHAIRMAN: Okay. Any more discussion, then, on that point? Agreed?

HON. MEMBERS: Agreed.

THE CHAIRMAN: Okay. Carried.  
Now, any other points?

MR. SEKULIC: Just in listening to the opening remarks of the Treasurer and his staff, some of the information which they conveyed is fairly advanced financial information, and it would be very helpful for this committee to travel because if you have someone from the financial market come in and ask a question, I think it's appropriate. Is Stan the manager?

THE CHAIRMAN: He's one of them. Yeah.

MR. SEKULIC: I think it would be appropriate to have someone with that level of expertise because the MLAs may be caught at a disadvantage in some situations. That's just a suggestion.

THE CHAIRMAN: I think it's a very good one. When we did our review, was it Teresa we had with us? I don't know if we could have survived out on the road without . . .

DR. PERCY: Trish.

THE CHAIRMAN: Well, there was Trish or was it Susan Williams then? Anyway, we had two more resource people with

us. It's not fair, you know, when we have *Hansard* here, not to get them into the public record. There must be some way in which to do that.

MR. HAVELOCK: While you're looking, Mr. Chairman, at some stage do you actually want a motion to accept the business plan?

THE CHAIRMAN: I realize that the informality of my chairmanship sometimes leads one to jump to the conclusion that I don't have a process in mind, but yeah, we will get to that. I just want to make sure we've got everything tied up.

DR. PERCY: One other issue that I think should be addressed is this issue about the role of the MLA oversight committee and the operations committee and the phrasing, again, which is used in the business plan on page 15, point 5. "Advise on the extent of use of external managers and the criteria for selection." I think in part that's a role for the MLA committee because we heard strongly when we were on the road that people wanted to see more private-sector participation. When you look at the fund management in Alaska, they've broken it up into a series of equity pools that are managed by separate managers, and the performance of each is clearly demonstrated and actually part of the annual report.

So I would just like to see a stronger role there for the MLA committee. Again, when I use the term that it's a political decision, I mean ultimately it's that committee plus the Treasurer that are accountable in the political sense, not a choice of who does it but just the philosophy: how much?

3:31

THE CHAIRMAN: Okay.  
Jon?

MR. HAVELOCK: Well, Mr. Chairman, while I'm sensitive to the issues raised by Dr. Percy, if you review the standing committee's responsibilities, it does state specifically: "review and approve annually the business plan for the Heritage Fund." I would anticipate that those business plans would include recommendations with respect to the use of external managers because that I see as being a critical part of this. But I don't want to overadminister this by, I guess, cherry picking certain things that are of concern to us, because there are a couple of other ones that I think I can put in and be very specific, but on the other hand, the generic wording of our number 1 responsibility in it captures them.

So I hear your concern, but I think generally it's handled by number 1, because that would of course have to be part of the business plan, looking forward. If we didn't like it, we wouldn't be approving that portion of the plan.

THE CHAIRMAN: Help me with this. I want to make a comment on this. Do I move the chair to the vice-chair when I make my comment?

MR. LANGEVIN: We'll allow you to make a comment.

MR. DOERKSEN: Just make your comment. We'll assume you did.

THE CHAIRMAN: Mike, I would be quite uncomfortable, I think, in what you're recommending, because the public did ask us for this private sector. We made that report. This report is clearly responding to that by this operations committee. If it's the

MLA committee now that somehow is involved in this selection, via the process or even the people I think we've now attached ourselves to a key component there that would erode our ability as an oversight committee.

DR. PERCY: I agree with you that you'd never want the MLA committee in any way, shape, or form to make recommendations as to who would be involved in the management. But I do think that the philosophical issue that there must be greater private-sector involvement than presently exists has been made, I mean, the last two or three years running in all of our recommendations of the committee. It was made by the public to us. It was made by the committee then to the Legislature, and the Legislature approved it. Yet nothing's happened.

MR. HAVELOCK: Mr. Chairman, if you receive this as a plan which has little if any private-sector involvement, then again I think that's something we can legitimately comment on and suggest to the Treasurer that it's something that needs to be addressed. But I think we're starting to overmanage this even at this stage if we're going to be very specific on that issue. It'll certainly come up during the discussions, Mike.

MR. DOERKSEN: The function of the standing committee is written into legislation already, and we don't have any jurisdiction to expand that scope here. But I think it's certainly in order for us to request that the Treasurer in his annual report give us that information. We can then provide direction whether we don't think it's enough involvement by the private sector. I think that's certainly something we can ask for and be part of the review. I have no problem if we go at it from that direction.

DR. PERCY: I'll leave it at that.

THE CHAIRMAN: All right.  
Any other points to be raised? Jon.

MR. HAVELOCK: I'd like to move the business plan.

THE CHAIRMAN: All right. Discussion? In agreement?

HON. MEMBERS: Agreed.

MR. HAVELOCK: I'd like to move cancellation of next Monday's meeting.

THE CHAIRMAN: Well, there would seem to be no need for it.

MR. HAVELOCK: I'd like to move off this committee.

THE CHAIRMAN: No, no. Don't dissolve this one now that we've finally got something we can . . .

Okay. So is there any other business anyone would like to raise? Mike.

DR. PERCY: What is the report of this committee to the Legislature? Is it in fact the passed business plan? I mean, is it the business plan that we've passed?

THE CHAIRMAN: Yeah.

DR. PERCY: And that's the report?

THE CHAIRMAN: That's the report.

MR. DOERKSEN: But we have requested amendments to the business plan.

THE CHAIRMAN: Well, that's why they want to hear it now; it's so they can get it done before they have to table the business plan. We will be removing "draft" from the title. What will be tabled will be the business plan of the heritage savings trust fund, which will contain the committee's report. My vice-chairman looks quizzical. We'd hope to do that, then, as soon as possible after we sit on the . . .

MR. DOERKSEN: Well, one of our motions or recommendations was that the business plan contain a glossary of terms. I have no problem recommending that it be presented to the Legislature without our prior approval, but we'd need the committee's agreement on that, I think.

THE CHAIRMAN: Okay. What we'll do with that, then, is similar to what we've done in the past with committees. We'll get from Treasury what they will be presenting as soon as we can get it. We will circulate it to the members, and the chairman will await instruction on whether or not there's a requirement to meet to discuss this. If it's what we anticipated it would be, then you can just - you know, silence will be acquiescence. If I don't hear from you, I'll assume you're happy with it.

HON. MEMBERS: Yeah.

THE CHAIRMAN: Yeah? All right.

MR. DOERKSEN: The only other item would be: do we need to set any kind of time frame around which the Treasurer reports back to us with that plan of communication?

THE CHAIRMAN: Well, I think they mean to do it as part of the documents that they have tabled.

MR. DOERKSEN: Well, I disagree, because then we would certainly have to meet before we tabled the report with the Legislature to approve that communication plan, which I don't think is the intent of the tabling in the Legislature.

THE CHAIRMAN: Well, I may be misinterpreting, Victor, the information I was given during the recess, but my understanding was that they wanted to hear from this committee about what we were concerned about so that they could get to work on it as fast as they could so that they could deal with this when they do the tabling. They knew that the communication was going to be one of the concerns that we would be dealing with. Okay?

MR. SEKULIC: The last question I asked of the Treasurer was the philosophical one, which I don't think we need to revisit. However, in the backgrounder, which is the opening page to the business plan, it would be helpful - if we're trying to educate and inform Albertans about the heritage savings trust fund, then perhaps some of what the Treasurer said should be included there. I know that as I read through this, I was wondering: "Well, great. We're investing, but there has to be a purpose beyond just investment. There has to be something at the end of this." Regardless of whether we're speaking of two generations from now, it would be helpful in the backgrounder at the start of the business plan if that were outlined.

THE CHAIRMAN: Well, you see, based on the current legisla-



tion, that would not be a requirement of the business plan, because nowhere in the current legislation does it indicate at any point what eventually might happen. Legislatures in the future are going to have to come to grips with it.

MR. SEKULIC: Right. I guess I wouldn't want to define or lock a future government into something, but perhaps a vision – I know when I heard you say that the trust fund was originally put in place in 1976, there was a vision for it. What was it? Established in '76 by an Act of the Legislature in recognition that conventional oil and gas resources would be depleted over time and that the revenue generated by such resources can fluctuate, it goes on to describe. I think we do that on a form 18K which we send off to institutions which lend us money. I think it would be very helpful because we are talking to Albertans. Ultimately this is to inform and educate Albertans about their assets. So that sort of preamble doesn't lock you into what you must eventually do but rather suggests the purpose of reinvesting these moneys.

3:41

THE CHAIRMAN: Okay. Well, let's let the committee decide. We have a recommendation of a change to the preamble. Do we have agreement?

MR. SEKULIC: To modify the preamble.

THE CHAIRMAN: To modify the preamble. Those in favour?

MS CARLSON: Well, I have some concern and some discussion there. I agree with what you're saying, Peter, but I don't know, if you're going to talk about long-term goals, whether or not there has to be some sort of a legislative debate about it prior to it becoming actually part of the business plan. I don't know. I mean, I think it's an excellent idea, and I wish we had been there. I'm not sure how you get it in at this stage. Perhaps that's something that we need to put on the table when we're bringing our report to the people of the province and make it as a recommendation next year.

THE CHAIRMAN: There you go. Will that resolve that?

MR. SEKULIC: Absolutely.

MS CARLSON: You don't want to lose sight of it, though, because I think it's really important.

THE CHAIRMAN: Yeah.  
We're adjourned.

[The committee adjourned at 3:42 p.m.]

