11:07 a.m.
[Mr. Pham in the chair]

THE CHAIRMAN: Good morning, ladies and gentlemen. I would like to call the meeting to order now. Let me begin by welcoming our new member. Mr. Bill Bonner is replacing Mr. Gene Zwozdesky. Bill, in this committee we try to be as open and nonpartisan as possible. Ever since I have served as chairman of the committee, all the major decisions of this committee have been approved unanimously by members of both sides of the House. Debby and Gene have done an outstanding job of serving the committee, and I hope that you will follow that good tradition.

MR. BONNER: That is my intention, yes.

THE CHAIRMAN: We have in front of us the agenda for today's meeting, and I would like to have you take a look at it and have one of you make a motion to move it.

MR. DOERKSEN: I so move.

THE CHAIRMAN: The motion has been made by Mr. Doerksen. Will you approve the agenda?

HON. MEMBERS: Agreed.

THE CHAIRMAN: Any opposed? Thank you.

We also have the minutes of the last meeting, September 23, 1998. You can quickly take a look at them, and if there are no omissions or errors, then I need a motion to approve them.

MR. SHARIFF: So moved.

THE CHAIRMAN: Moved by Mr. Shiraz Shariff. Agreed?

HON. MEMBERS: Agreed.

THE CHAIRMAN: Opposed? Thank you.

Our next item on the agenda is the presentation from the Provincial Treasurer on the business plan. For the benefit of the new member, every year what we do as a committee is review and approve the business plan of the heritage savings trust fund. That is the framework for the fund to work in the next fiscal year. Every quarter we meet as a committee to look at the fund's performance, measure it against the performance benchmarks that we set out in the business plan. In the months of November or October we also hold public meetings, four meetings across the province, to report to people on how the fund did last year. Up to now we have approved the business plan, and that is incorporated as part of the business plan of the government. So the information that we see today should be considered as confidential because it will be part of the budget, and we will present it next year in the Legislature.

At this time I will ask our guest, the Hon. Stockwell Day, Provincial Treasurer, to present the business plan to the committee.

MR. DAY: Thanks very much, Mr. Chairman, ladies and gentlemen. It's good to be with you this morning. There are a couple of things. First of all, I'd like to review the second-quarter investment report and provide you with an update in terms of where we stand with the endowment portfolio, and that would be up to the end of November. Then, if you'd allow me, I'd review actually the recommendations that were made by the Investment Operations Committee regarding the 1999 business plan for the fund.

Just some comments on four areas in terms of the second-quarter report itself. You'll see that the net income for the second quarter was $104 million, and for the six months ending September 30 the net income was $361 million. That was actually $62 million less, as you've probably already observed, than the same period last year. A couple of factors there. The lower interest rates obviously have an immediate impact when you look at the short-term structure of the transition portfolio, remembering that the $1.2 billion transfers over from the income-generating transition portfolio to the growth-oriented endowment portfolio. As you recall, that's the longer term portfolio, where the patient money goes and grows, but it is subject obviously to some of the short-term volatility that you'd expect from your own investments and RRSPs and other areas anytime you're in the equities market. There's a decline in stock market values, and that has a negative impact on some of the swap incomes. So there are some factors that are there.

The second point I'd like to make is just a reflection on the volatility of the markets during the first six months of '98-99. The bond market, if you use the Scotia capital markets bond universe index, which is what we use in a number of our performance measurements, returned 4.2 percent, while the Canadian equity market, if you use the TSE 300, returned minus 25. So a clear indicator on what the markets have been doing of late, and that obviously has an effect on us.

That volatility was reflected in the lower investment income. The endowment portfolio, though, is performing well against its benchmarks, and that has to be taken into account. The entire market goes through ups and downs, and we need to be asking ourselves with that: where are we in terms of our own benchmarks? If you look at it on a three-month basis, we're 60 basis points above the benchmark. On a six-month basis we're 50 points above the benchmark, and on a 12-month basis we're 30 basis points above that benchmark. So with the volatility that affects all markets, we are hitting just slightly above where we are aiming, and that's positive news.

The performance of the transition portfolio is actually measured against a benchmark that's based on the cost of the Canadian dollar portion of the province's debt portfolio. If you look over the last year, the returns there on the transition portfolio were actually greater than the cost of the province's Canadian dollar debt. That is one question I get consistently. That is a consistent one. So we're pleased to report on that particular aspect. For the year we were 40 basis points actually above the benchmark. On a six-month basis, though, when you track that out over the six months, we lagged the benchmark by about 20 basis points, and on a quarterly basis the transition portfolio was 10 basis points ahead of the benchmark.

I think it's important and would be helpful just to look at the last couple of months, again, just to show you how things track and how they go, a brief update on the markets and the endowment portfolio. There's been a fairly good improvement on the capital markets over the last two months. The bond market has continued, and it's now upward and providing modest positive returns. The Scotia capital markets bond universe index returned 1.3 percent over the last two months. It's interesting how you get used to things. It's all relative. When you're used to seeing minus 20 and 15 and 18 and then you get 1.2 on the positive side, people start to cheer.

The TSE index has returned about 13.3 percent, and that reflects some similar gains in other world markets. Standard and Poor's 500, the U.S. market index, returned 14.9 percent. That's in Canadian dollar terms, and that's over October and November. Europe and the Far East markets were returning about 16.1 percent. Again, this is just over the last two months. So we're seeing that positive trend in market values, keeping in mind that when we're talking about the endowment portfolio, that's the long-term growth. The investment strategy there is to deal with the higher volatility and look for the longer term.

The last point there is that the endowment portfolio is actually up $435.2 million over the last two months. Two hundred million of that increase actually you have to attribute to that transfer between the transition and the endowment portfolios. The balance of that, some $235 million, is actually due to market appreciation. So some upward ticking there.

The heritage business plan. In general terms for 1999 there are some minor changes that have been recommended by the Investment Operations Committee. You'll note that this year the permitted range for investments in fixed income and equities has been updated to reflect last year's increase in the target equity allocation from 50 percent to 60 percent of assets. The new ranges would be symmetrical around the long-run asset mix policy. So if you take fixed income and you look at the old ranges, it was 35 to 55 percent, and the new ranges recommended there are 30 to 50 percent. That's on the fixed-income side. On the equity side, if you'll recall, the old ranges were 45 to 65 percent, and with the new ranges that'll move from 50 to 70 percent.

11:17

There's been some clarification of the outcomes and the performance measures for the endowment portfolio. That's referenced, I believe, on page 9 in terms of the business plan. These changes actually distinguish between measuring the broad policy outcome -- remember that broad policy outcome is that the fund earns more than the interest cost on existing debt -- and the results of the actual investment manager's actions. That would be the fund's market rate of return exceeding that of an investment policy benchmark. So those two are distinguished there.

MR. DOERKSEN: Mr. Treasurer, I think you've moved from the second-quarter report. You're now into the business plan.

MR. DAY: Yes. I referenced that. Do you want to stop?

MR. DOERKSEN: No. That's fine. I just noticed that we weren't all on the same page.

MR. DAY: Okay. Sorry. I quickly made a reference to the business plan.

THE CHAIRMAN: For all members of the committee, the Treasurer has combined items 5 and 4, then separated item 5, and now he's moved on to item 4.

MR. DAY: I was going to do a walk-through and let you just fire away from whichever aspect you wanted. Good. Thanks for alerting us on that.

The category limits for the long-term fixed-income holdings of the transition portfolio have been amended. If you want to take a look at page 7 there, that's where we're referenced. On page 7 you'll see that the change is actually to increase the overall limit for holdings of other provinces' debt and public corporate debt. It'll reduce the limit for holdings of the province of Alberta debt as we dispose of more of the investments in provincial corporations there. That's why you see that move.

In addition to that, the benchmark for the transition portfolio is to beat the cost of Alberta's debt. To do that, there has to be enough scope to allow us to hold lower credits. As a result, we're recommending expanding the limits to Ontario significantly and, to a lesser extent, Saskatchewan, Manitoba, Quebec, and New Brunswick. I'm not trying to diminish a lot of the details in the report. Those are the overriding reflections, Mr. Chairman, on the second-quarter report itself and the minor changes that are being recommended related to recommendations from the Investment Operations Committee.

I think it's fair to say that the initial performance of the fund continues to meet or to exceed the benchmarks over most periods. As I've said, in the second quarter we saw the markets come off significantly, but the markets have since rallied the last two months. While the potential for further shock still remains, we have to be watching that, and we do that in our own budgeting, as you know. We have to keep in mind that the investment strategy for that endowment portfolio is to maximize the long-term growth. With that strategy then comes some increased exposure in the short-term to some market volatility. Those are some of the overriding items, I think, that I will risk presuming would be of interest to the committee. Other areas that you'd like to point to or reference I'd be happy to try and address.

THE CHAIRMAN: First of all, to make it easier for the committee to deal with each of these items independently, I would like to invite questions now on the business plan only. If you have questions on the second-quarter report, then we can deal with that after we have dealt with the business plan. Any questions for the Treasurer on the business plan? Mr. Shiraz Shariff.

MR. SHARIFF: Mr. Treasurer, you just mentioned that the endowment portfolio has outperformed its benchmarks over the last 12-month period. Can you be a little bit more specific as to where the performance came from?

MR. DAY: I can. If you look at page 2 of the quarterly report, there are rates of returns there for various fund components. If you add the value relative to the benchmark in two ways -- you can overweight and underweight a particular asset class relative to its benchmark weight. So if you compare the asset mix, the weighting of the endowment portfolio as at September 30, 1998, to the benchmark index weighting under the benchmark portfolio returns, then you see that following asset mix. You see where the asset category is, the current weight, the benchmark weight. Then moving over to the actual market return, if you compare those weightings to the market returns over the one-year period -- you slide three columns over -- you can see that Canadian bonds actually outperformed Canadian equities. That's where, therefore, the relative overweighting in the bonds versus the underweighting in the equities added to the performance. I'm just pointing out again that Canadian bonds outperformed Canadian equities. If you look within the equities themselves, when you have an overweighted position in foreign equities, that also helps. That's of course given that foreign equities have performed as well as they have.

Again, if you look on the real estate line, you can see that we underweighted there in real estate, which from an asset mix perspective would have hurt given that we were underweight. But in general we had the right asset mix through the period, the exception there being real estate. So the asset mix in that particular case -- that's the importance of having that right asset mix -- is actually the key contributor to the performance there, part of the so-called science of getting the right mix.

The second way that you try and add performance is through the security selection within those asset categories themselves. In other words, it's a stock you chose to hold or not to hold. If you compare the one-year returns there for the endowment portfolio and the one-year returns for the benchmark portfolio, you can see that we've outperformed on a relative basis in the areas of Canadian equities and real estate and slightly under the benchmark, as you'll note, in fixed income.

The biggest source of underperformance was on the foreign side. Most funds, not just ours, went through and had that experience. So if you net it out, security selection there was also positive.

MR. SHARIFF: Maybe you can help me on this, then, a little bit. I'm looking at the business plan, page 3, where the proposed range for equities is going to increase from 45 to 65 percent to 50 to 70 percent, so you're proposing an increase in equities. But I'm looking at the reference that you just made from the quarterly report. How do you reconcile -- I'm not sure if I understand this fully. It appears that the bond fund did better -- and you said that -- than the equity fund, but we're going to be increasing the range for equity investments? What's the rationale there?

MR. DAY: Again, over the long term you're going to find that you'll have better performance in the short term, as we saw not just in Canada but internationally. Whenever equities are on their way down, people are shifting; there's a flight to security. Whenever you move to putting a weighting on security, you understand that you are going to accept a lower rate of return, but you're trading that off for risk. So as the markets have gone through this turmoil, there was that move, that flight to security. But generally, over the long term, which is where the endowment portfolio is going, you know or at least you hope that moving to equities and increasing your asset mix there is going to be better. Then that's why the balance and that's why the weighting, so that you can hedge, in a way, with a certain balance on the fixed side. That long-term plan to see the endowment portfolio grow -- and it moves at that rate of about $1.2 billion a year, as you know. What we're saying is that we believe the markets in the long term are going to perform better. That's where we'll put a little more weighting, and we'll ride through the dips that invariably occur, and when they do occur, we're somewhat balanced by that offsetting weight that we have in the bond market.

11:27

MR. SHARIFF: Thank you.

THE CHAIRMAN: Mr. Rob Lougheed.

MR. LOUGHEED: Thanks, Mr. Chairman. Maybe this question overlaps with the business plan in the report. Looking at the return as opposed to the expenses on our debt side, how close or how sensitive, how quickly can you come up with those kinds of comparisons, like whether the paying out is becoming greater than what we're getting back from the heritage fund?

MR. DAY: You mean, say, quarterly as opposed to month by month?

MR. LOUGHEED: Yeah. What kind of time frame?

MR. DAY: Stan Susinski might be able to -- in terms of time how rapidly are we able to read those movements, Stan?

MR. SUSINSKI: Sorry. Could you just give the question again?

MR. LOUGHEED: Well, on page 9, the outcomes. "The market rate of return on the Portfolio is expected to exceed the cost of the Provinces debt." How much time lag is there in determining . . .

MR. SUSINSKI: We track those on a monthly basis, basically. We know what's kind of going on in the markets. We have a sense of what's going on, and it gets confirmed by the numbers that we look at monthly.

MR. BHATIA: Maybe I could just supplement that answer. With respect to the endowment portfolio, as the Treasurer mentioned, you know, really it has a very long-term objective. We've indicated here that in terms of a comparison, say, to our debt cost, you really need about a four-year period to assess whether that objective fundamentally has been met. With the transition portfolio we attempt to meet that objective on a shorter term basis, and there can still be fluctuations, but with the endowment portfolio you really need the four-year period.

MR. LOUGHEED: Can you give us any idea of what it is right now, at least on the transition, how they compare?

MR. SUSINSKI: On the transition those are the figures that are on page 4 of the quarterly report, and you see there that over a one-year period the transition portfolio has done better than the cost of debt, 6.3 percent versus 5.9 percent. We had a bad first quarter of the fiscal year largely because of some things to do with some of our Crown corporation investments and Prince Rupert grain.

But back in the second quarter of the year, July to September, we again outperformed the debt cost. If you then bear in mind those debt costs that are on that page and you compare to the returns we were just looking at with respect to the endowment portfolio, clearly the last quarter was not good because of the downturn in the equity markets. Even over the one-year period the endowment portfolio didn't outperform the cost of debt because we've had this sharp downturn in equity markets in the second quarter of the year.

MR. LOUGHEED: Okay. Thank you.

THE CHAIRMAN: Thank you.
Mr. Bill Bonner.

MR. BONNER: Thank you, Mr. Chairman. If I get out of order here, please correct me. This is my first time through here. When I look at our endowment portfolio performance . . .

MR. DAY: Is this on the second-quarter report, Bill?

MR. BONNER: Yes. Page 2, Stockwell. Our weighting is at 1.6 percent. It performed very well at 21 percent. When I look at our benchmark portfolio return, is there any move to increase that to 5 percent, since it has done so well?

MR. DAY: You mean in terms of the overall holding?

MR. BONNER: Yes.

MR. DAY: We have some movement. I believe the limit is 5 percent itself; is it not, Stan?

MR. SUSINSKI: Yeah.

MR. DAY: We never want to get too weighted, as you can understand, on the real estate end, but I believe we've got the ability to move to 5.

MR. SUSINSKI: Yeah. I might just supplement that by saying that real estate is one of these commodities that you can't go out and buy right away. It takes a long time to get into it, and we are continually looking for good opportunities. We think we will be able to increase that over the next year or two. Given the nature of the product, it does take a long lead time to investigate these projects and be satisfied that you want to hold them, because once you buy a piece of real estate, you're basically wed to it. So we have to proceed in a pretty deliberate fashion to make sure that the real estate is something we want to hold over a long period of time. We have a number of initiatives under way, and I think that you'll see an increase in that number over the next year.

MR. DAY: There's also a list of protective criteria, really. I say "protective" because it guides the managers in their investment when they're looking at real estate. You know, it can't be always bridges in Arizona, if you know what I'm saying. There's actually a list of criteria: these are the types of real estate investments to look at. It limits the possibility that they're going to stray into higher risk areas, even though real estate itself can be seen as higher risk.

MR. BONNER: So then if you can't find something that will fit this criteria, we probably won't move too far from the 1.6 percent we have right now.

MR. DAY: Well, I think it's fair to say that within the criteria they're going to be able to move and increase.

MR. BONNER: Okay. You mentioned the Prince Rupert grain terminal. With current throughput levels, what impact would a 1 percent change in the throughput over the long term have on the security of the loan?

MR. DAY: Well, there's no question, Bill, that the project loans themselves are really a relatively minor part of the whole fund. Look at the schedule. Murphy Oil is going to be paid out by December 22, and that will leave the most significant holding there, Ridley Grain. You're quite right in identifying that there's a small residual there from Vencap. Once Murphy Oil moves out of the portfolio -- that will be as of December 22 -- project loans at that point are going to be less than 1 and a half percent of the whole transition portfolio. So obviously it's a factor. When you look at it in and of itself, that's a lot of money. In terms of the overall fund it is small; if there's a change in throughput, it affects the asset for sure. I can tell you that Ridley is up to date on their payments, even though there's been, you're probably aware, some temporary closure there. The last payment was made on November 1, I believe, principal and interest. So they're up to date. We think the asset is going to hold, and those project loans are still going to be less than 1 and a half percent of the whole transition portfolio.

So it's something to be watched. It's not going to dramatically shake things to the core if something negative happens there. Even though there are challenges for sure, I'm not anticipating a radical change there. But that's the impact it would have if it really did go south on us.

MR. BONNER: What sort of an impact are the lower grain prices going to hold?

MR. DAY: Well, there will be some. Profitability is the key to that operation. Last week at this time, I mean, depending what you're looking at in terms of various commodities which can go through there, wheat was at $3.77 a bushel. That was down 3 percent. Soybean I think was $5.74. That was down. A number of commodities across the agricultural sector are down, some of those which would go through that particular operation. That will have an effect. It's a little early to tell. So far they continue to be on track with principal and interest. They're letting us know that they're nervous, and we'll just have to watch as closely as we can.

MR. CLEGG: Just on that point, I really don't think the low grain price has any effect on Ridley because they still get exactly the same cost. The only thing is that there might be some grain held, but I think everybody is going to move the grain. So their profitability, if any, will come from the handling of the grain. I see grain prices affecting that very, very little.

MR. DAY: Yeah. I think you're right. I don't think there's going to be a significant shift there.

11:37

THE CHAIRMAN: So you mean it is the quantity and not the price that affects it.

MR. DAY: The price ultimately will affect the quantity of stuff moved through at some point.

MR. CLEGG: Well, I don't think so. Because of the tough economic times in agriculture, if the grain is there, it is going to move to that point.

MR. DOERKSEN: They can only hold it so long.

MR. CLEGG: Yeah. You know, the majority of grain producers do not hold their grain because of the cash flow that they have. There's always some but very little.

MR. DAY: Yeah. Okay.

MR. BONNER: Can you confirm that Alberta Treasury and Ridley Grain have been engaged in discussions relative to early retirement or a buyout of the fund's $97.75 million investment in the Prince Rupert grain terminal?

MR. DAY: There's been some discussion, Bill. I can't say that I have something before me that I'd be prepared to take forward for consideration in terms of: here's something we should look at. I'm certainly not recommending anything at this point. As I said, the principal and interest payments are on track and have been even through turbulent times. So either with this or any number of loans, I can tell you, Bill, that there's always discussion that's circulating around. Sometimes it's as simple as a phone call saying: how do you think things are going? Sometimes it's a letter saying: do you want to sit down and discuss it in detail? I don't have any proposal that I'm bringing forward to cabinet for discussion in terms of saying that I think we should do this. Right now I'm saying that it looks like things are on track. Maybe there's going to be a month or two that look turbulent, but I am not taking a proposal for a buyout to cabinet, though there are always discussions that are going on.

MR. BONNER: Would you know if the consortium has retained a consultant to examine the various options with respect to a restructuring of the loan arrangement between the Alberta government and Ridley Grain?

MR. DAY: I would be surprised if they haven't. Have they done that and are they now doing that and do they have someone onside? Honestly, I don't know. As with any of these entities, if they're looking at their options, it wouldn't surprise me at all that they have. But I don't want to speak for them. Maybe they'd want to answer that themselves. I'd be surprised if an operation like that didn't have somebody doing evaluations for them.

MR. BONNER: Okay.

THE CHAIRMAN: Bill, do you have more questions?

MR. BONNER: Well, I'm not sure if I'm coming in at the right spot with them or not.

MR. DAY: You're doing fine. This is a big project, all these items.

THE CHAIRMAN: What we have done traditionally in the committee is allow people to go with many questions. Then if you have more questions, I will put you on the second list. I will go to another member, and then I will come back to you.

MR. BONNER: Well, I certainly will wait if you have others.

THE CHAIRMAN: Okay. Thank you.

The way that members have asked questions today is they have been jumping back and forth between the business plan and the second-quarter report, and that's fine too. Later on we will deal with the two items separately in two separate motions.

Mr. Doerksen.

MR. DOERKSEN: Thanks. You made some reference to investing in the provinces and changing the limits with respect to Ontario. Can you repeat that? I lost that somewhere.

MR. DAY: I'm just going to get the actual page.

MR. BHATIA: The actual page in the business plan itself is page 7, which is the goal describing the transition portfolio. That's where it ultimately shows up.

MR. DAY: Okay. If you look at page 7, what I was talking about there was increasing the overall limit for holdings of other provinces' debt and public corporate debt and reducing some of the limits for holdings of the province of Alberta debt. We have disposed of some of those, as you're aware, in terms of our provincial corporations, and there are some that would be seen as prudent investments to be made in other provinces. Added to that, of course, the benchmark in the transition portfolio is to beat the cost of the Alberta debt, but we're recommending expanding those limits to Ontario significantly. Obviously they are experiencing similar growth rates as we are and to some lesser extent Saskatchewan, Manitoba, Quebec, and New Brunswick. You'll notice I didn't mention B.C.

MR. DOERKSEN: We've got some limits identified in the business plan, so I imagine those have changed, then, from last year.

MR. BHATIA: That's right. I was just going to give you the comparison. Last year we had Alberta limited at 20 percent; this year it's 17. Other provincial debt this year is at 53 percent; last year it was only 40 percent. I don't have with me, I don't think, the individual provinces' increases, but that shows you the end result. We've also increased public corporate debt from 20 to 25 percent, and that enables us to earn a slightly higher return than investing in, say, Alberta debt and therefore is one of the factors that helps us to earn a little more than the cost of debt normally.

MR. DAY: It's reflecting too, Vic, these different provinces as their own debt equity ratio changes and as they get their act together. It also reflects what I say about the importance of maintaining a good rating here in Alberta. A jurisdiction becomes attractive as their overall position improves.

MR. DOERKSEN: So this would go back to the decisions we've made based on the various ratings by the rating agencies: triple A or double A plus or whatever. We get a higher premium on the riskier stuff. When you're making these decisions, where does the committee draw the line?

MR. DAY: In terms of risk and income?

MR. DOERKSEN: And return. Yeah. Obviously we're reducing the exposure to Alberta because we're not making the high return here. We get a lower return because the rating agencies rate us so well. So we move our money into other provinces, where the risk is higher, but we get a higher return. I mean, somewhere you're trying to find the balance.

MR. SUSINSKI: If I could answer that. As background, we have to realize that when we came into this exercise, we had a huge amount of Alberta debt relative to other provinces. If you were looking at it from a prudent person rule in terms of an overall portfolio management, one would say right away that you're likely overweighted in Alberta debt holdings. So basically what we're trying to do over a period of time is actually try and equalize that somewhat, keeping in mind also that Alberta does command one of the lowest rates in Canada. If we are going to achieve earning more than the cost of debt, we have to go look at lesser quality, which is still very good quality in the scheme of things. I mean, we don't have any particular concerns about Ontario or B.C. or Saskatchewan meeting their debt payments, and we think that there are some good opportunities out there. So really I think I'd look at it more in terms of trying to get a better balance in terms of our provincial holdings rather than trying to discriminate against Alberta.

MR. DOERKSEN: And lest anybody think that I'm proposing that Alberta get a worse rating so we can have a higher return, that's not true.

MR. DAY: We're not going to aggressively pursue that strategy.

MR. DOERKSEN: No. But it'd also help us to meet our benchmark a lot easier if we have a better credit rating.

If I could also ask you to make some comments on page 12 of the business plan. These are the pages that always interest me the most because these are the assumptions we make when we're doing our forecasting. The observation I would make here -- and maybe it's because I'm misreading the table. I look at our investment income over the period of time actually decreasing, yet I look at the assumptions and the rates and I don't see a whole lot of change in terms of the same trend. So I'm trying to figure out what's happened.

MR. SUSINSKI: I guess I might try and answer that. In the equity markets one really can't make an estimate of what's going to happen one year to the next or one quarter to the next. The markets are so volatile that it's almost impossible or impractical, so basically, on the equity side particularly, these represent more what we believe to be the long-term returns, and that's suited to the fact that we do have a long-term investment policy. What we're trying to do is gear for what things are going to look like over a five- to 10-year period more than what they're going to look like over a one-year period, which we think is really impractical to forecast. Back in June we couldn't have told you that the Canadian equity market was going to decline by 25 percent or anything like that. If we could, we likely wouldn't be sitting here.

Basically these are more what we consider the longer term trends, and they are to some extent moderated by what we've seen going on in the immediate year or two past. To put it in context, I think the equity returns don't necessarily reflect what's going on quarter to quarter in the market. They're more longer term.

11:47

MR. DOERKSEN: I was trying to compare your estimated returns. Is there not a relationship to the investment income, then, on this page?

MR. SUSINSKI: When we do the forecast, we do actually incorporate what we've earned to date each year, but going further out, we basically have to make longer term assumptions.

MR. BHATIA: Maybe what you're getting at is that the income is declining gradually.

MR. DOERKSEN: That's correct.

MR. BHATIA: That's because we're every year transferring $1,200,000,000 to the endowment portfolio.

MR. DOERKSEN: Okay.

MR. BHATIA: If you look at the line called Equities, Estimated Income Rates, you'll see that the equity investments, which of course in the endowment portfolio are only expected to generate actual accrual income that we book of 4.9 percent -- that's because on a cash basis we get dividends. We sell a small portion of the equities every year, and we realize capital gains on those, which come into income, but there's a portion of the return on equities that we don't get to count as income. It's the portion that's the increase in price on equities that aren't sold, and that's why that 4.9 percent estimated income rate is lower than the 8 and a half or 9 percent overall return on equities.

So as you shift money into equities, the expected amount of accounting income is actually lower than the expected accounting income on bonds, which you can see is 5.65 to 5.8 percent. I think that's what accounts for the gradual decline in income.

MR. DOERKSEN: Okay. Maybe on that page then, to be clear, we need to make sure that we reference the fact that this only reflects investment income from the transition portfolio.

MR. BHATIA: Well, no. This table does refer to the assumptions for both portfolios.

MR. DOERKSEN: But you told me that the investment income doesn't.

MR. BHATIA: No. I'm sorry if I wasn't clear. What I meant to say was -- if you look at item 2 in the assumptions, Equities, Estimated Income Rates, that is the estimate of the accounting income from our equity investments in the endowment portfolio. That number is smaller than item 3, which is the rate of return, which is sort of the total return including the increase in market value, but we don't get to count all of the increase in market value as income.

MR. DOERKSEN: Okay. So the investment income, just to be clear, on the top of the page reflects both portfolios.

MR. BHATIA: Yes, it does.

MR. DOERKSEN: Thank you. Okay. Thanks for spending some time on that. I'm sure I can go out now and explain it to the average person on the street.

THE CHAIRMAN: Thank you.

The Provincial Treasurer has another commitment. He has to leave at noon. So if you have technical questions that you need to talk to his staff about, then they would be more than happy to stay and answer technical questions.

Bill, you have a further question?

MR. BONNER: Yeah. I'm looking again at page 12 of the business plan, and I see that the rate of return on equities for international is 9 percent. How much of it is, say, eastern Asia, where we've had great volatility?

MR. DAY: It's a very small amount. Actually I think the overall is less than 3 percent; isn't it, Stan?

MR. SUSINSKI: Less than 3 percent of the total portfolio. That would be right. But I guess if you're looking at the total outside of the country, I think we're going to be at around 25 percent. It'll likely increase over the next couple of years. But the Treasurer is right; it's very low at the moment, but we expect to increase it.

MR. DAY: That's why we haven't had a major debilitating shock from what's happening in Asia as a result of the actual direct investment. We share what's happening around the world because of Asia, but in terms of directly, it is that low a portion.

MR. BONNER: Thank you.

THE CHAIRMAN: That's it, Bill?

MR. BONNER: For now, yes.

THE CHAIRMAN: Okay. Shiraz.

MR. SHARIFF: I'm looking at the quarterly report, page 16, and what I'd appreciate is if you could give us a status of the project loans within the transition portfolio.

MR. DAY: We do have, as you can see, some significant holdings there in TransCanada PipeLines and Nova Chemicals. The plan there is actually to see those reduce over time, and the timing is going to be dependent on market conditions. I've made some reference already to other project loans there. Murphy Oil: again, that'll be paid out by December 22; as you see, it's on the bottom part of the page there, that reference there. We're left, as I indicated to Bill, with Ridley. It's left there, and you can see that there's some residual as far as Vencap goes. So that's sort of the general status. Al-Pac: as you are aware, we are right out of that particular one. I might just say on Al-Pac that if you look at present conditions, market and prices and what they're going through, I'm hoping that at some point one of the many media bright lights we have in the province will say that there was some prudence in the decision this caucus made in terms of getting out of that particular one. You can see the difference there in terms of moving out of that particular one. As I said, moving down and out as related to TransCanada and NOVA, but we'll watch the markets on those two.

THE CHAIRMAN: Thank you.

MR. LOUGHEED: You were talking about foreign equities just a minute ago here. Did I hear you say 25 percent or so?

MR. DAY: It's 25 percent now, but as you know, with the change last year that moved to 30. As a matter of fact, it can actually move to 35, within that particular range. It's about 25 right now.

MR. LOUGHEED: Thirty-five is the max?

MR. DAY: It's 35; is it not?

MR. SUSINSKI: Yeah, we can go up to 35. I think at September 30 we were at 23 or thereabouts.

MR. LOUGHEED: It can go to 35.

THE CHAIRMAN: Thank you.
Any other questions for the Provincial Treasurer?

MR. BONNER: Yeah. On foreign equities, what are the terms and conditions of the contractual arrangements between Alberta Treasury and the external managers for the investment of fund assets?

MR. DAY: If you look, Bill, there was a question on that. You weren't there at the time, but in terms of specific information last time -- it's a good question. Somebody else actually raised it, and I committed to get that information. So if you look to your last tab there, as far as external managers you can see amounts that were paid and what benchmarks . . .

MR. BONNER: You've lost me.

MR. DAY: Okay. Sorry. Do they have this?

AN HON. MEMBER: We don't have tabs.

MR. SUSINSKI: It was an answer to the question. Did that not get circulated?

MR. DAY: Do you not have that? Okay, Bill; I'll leave that here with the chairman. I thought it might have been circulated. What I've provided here is for you, and you can look at it in some detail. I've provided the amounts that were paid to external managers. Also, in reference to your question -- what benchmarks are used as a standard to measure their performance? -- they do have to hit certain targets. Also, on the real estate side there's an outline there of the policies that are used -- I referenced those just briefly but not in detail -- when you're going into real estate acquisition and a listing of those investments that are held. I'll make sure you have that. That was a question. We did get it, and I don't have it for you. I will physically leave it here today. The breakdown will show you each of the managers, it will show you what portion of the assets they have, and it'll show you how it's broken out in terms of their fees and what their management guidelines are.

11:57

THE CHAIRMAN: Once my office receives the answer from the Provincial Treasurer, I will make sure that each member gets a copy of it.

MR. DAY: Great. Thanks.

THE CHAIRMAN: Okay. Seeing no further questions for the Provincial Treasurer, we would like to thank you for taking the time to attend today's meeting. I know that you have a very busy schedule, and you have been willing to change your schedule to be here at 11 o'clock so that we the MLAs who come from afar can go home early. We appreciate it.

MR. DAY: We were happy to make that change.
I think one of Victor's questions -- you know, the technical data here is absolutely important. At any time feel free to get in touch with Hung if you need some specific information. But the big challenge, as you know, that you face is just letting Albertans know there's a fund there. It is the most underreported item, I think, in everything we do. There's $12 billion sitting there, and this year that fund earned for them some $800 million. You're probably finding that when you go out, Mr. Chairman, a lot of people go, "You're kidding." They just simply say, "You're kidding." So you've got a communication challenge as well as being the watchdogs, and I appreciate the work that you're doing in taking on that challenge.

THE CHAIRMAN: Now I would need two motions. The first one is to receive the second-quarter investment report for information.
MR. DOERKSEN: I'll move that, Mr. Chairman.

THE CHAIRMAN: Thank you. Anybody opposed? So I assume that we have unanimous consent?

HON. MEMBERS: Agreed.

THE CHAIRMAN: Now I need a second motion to approve the draft business plan presented by the Provincial Treasurer.

MR. CLEGG: I so move.

THE CHAIRMAN: Moved by Mr. Glen Clegg. Agreed?

MR. DOERKSEN: Mr. Chairman, before you ask the question, I noted on page 10 under goal 3 -- in view of the agenda item that we're going to talk about, what happened during our last tour of the province, I wonder if these actual strategies will be the same after we have that discussion. So if we approve the business plan, we approve the strategies, and we may wish to change those. I'm just raising that as a question.

THE CHAIRMAN: If you refer to the Alberta Heritage Savings Trust Fund Act itself, we are required to hold public meetings anyway.

MR. DOERKSEN: Okay.

THE CHAIRMAN: We may hold a public meeting in a different format, but we are required by law to do it. So it doesn't affect the strategy that we have here.

MR. DOERKSEN: Good answer, Mr. Chairman.

THE CHAIRMAN: Thank you.
So we have the motion by Mr. Glen Clegg that we approve the business plan as presented by the Provincial Treasurer. Approved?

HON. MEMBERS: Agreed.

THE CHAIRMAN: Opposed? Thank you. So the business plan is approved.
Now we move to item 6 on our agenda. As indicated earlier by Mr. Doerksen, every year we have four public meetings across the province to inform Albertans on how well the heritage savings trust fund performed the year before. We spend quite a bit of resources on advertising for these public meetings and organizing the meetings. Up to now the level of attendance has been low. It is

understandable because of two things: number one, this is a noncontroversial item, and second, it's highly technical. So it's not easy to attract a large audience. During the last tour of the province we had with us Karin Brown from Alberta Treasury communications, and she has some very good suggestions as to how to improve the attendance and how to make the public meetings more attractive to the public. I do not expect the committee to make any decisions today on this issue. I will ask Karin to make a presentation, and each of you will take the discussion paper or proposal away, think about it, and then we will make a decision at our next meeting.

Before I pass to Karin to make the presentation, I would like to draw your attention to section 6(4) in the Alberta Heritage Savings Trust Fund Act itself. That is the act that governs the committee. This item spells out clearly that the functions of the standing committee are

> (a) to review and approve annually the business plan for the Heritage Fund,

which we did today;

> (b) to receive and review quarterly reports on the operation and results of the operation of the Heritage Fund,

which we also did today;

> (c) to approve the annual report of the Heritage Fund,

which we will do sometime in June;

> (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.

That report will be filed in the Legislature sometime during the spring session. The last function is

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

So on the question of whether we have public meetings or not, we have to have public meetings because it is the law we have to follow.

Second, when we were thinking of piggybacking on some other type of public meeting -- for example, attending a chamber of commere meeting and considering it as a public meeting -- we may have to check. I will check with Parliamentary Counsel on whether we can consider that as a public meeting or not because it is not open to the public; it's only open to the members of that particular organization. There is nothing wrong with us attending those meetings and giving out the information, but whether that can replace a public meeting or not is questionable.

So with those caution notes I would pass to Karin to make the presentation.

MS BROWN: I'll start with the act. There's only that one line in there that says that you have to have public meetings. I'm assuming that the reason you have public meetings is to inform the public, and if they don't come, then it doesn't work very well. I think one of the reasons that it doesn't work very well is because of the nature of public meetings. They're usually for local issues, like there's no school in my neighbourhood and all of a sudden there is this whole bunch of little kids, so we've to get together, get all angry, have a meeting, incite some action, and get some things happening. But the trust fund doesn't have any of that. It's kind of technical, it's kind of dry, it doesn't require a lot of action, and it's not really a pressing concern because it will probably continue to function just fine regardless of whether anybody comes to the meetings or not. So if you really want to tell people about the fund, it's probably not the most effective way to do it.

In this draft paper here we've put together a few recommendations that may help you improve communications. The first thing that you might want to do is a bit of research to determine what level of awareness really does exist and, among those people who are aware, how much they really care. Because it's hard to tell people things they don't care about.

The second thing you might want to do is to check out new ways of meeting. As the chairman mentioned, some things that you can do are to piggyback on other meetings that already exist or you can use a speaker's bureau. You could submit all your names to a speaker's bureau and offer yourselves up to discuss the heritage fund at any meeting those lists are prepared for. Also, something that might be quite fun and a bit innovative is a virtual meeting. We have the technology in government to hold a conference on the Internet. It would save a great deal of money, and you could also get people from other places to participate. One night you could have a roundtable discussion with academics from universities across the province. The next night you could have FAQs from regular Albertans. There are a number of formats that would be appropriate and informative, and you could use the information that you get from your research to hit the topics that people are actually interested in.

12:07

MR. DOERKSEN: What's an FAQ?

MS BROWN: Frequently asked question.

MR. DOERKSEN: Thank you.

MR. LOUGHEED: That's a frequently asked question.

MS BROWN: Also, regardless of what forum you choose to meet in, there are ways that we could improve the meeting format itself. That would be to release the MLAs on the committee from having to explain stuff that is so detailed that it just gets lost in the explanation and have a technical expert come in and do that. Then the committee members could just give a welcome and an overview and answer questions that were relevant to them and their job on this committee.

I think the advertising is still a good idea. It's still a great way to raise awareness. It's a very passive form of gathering information. Even people who aren't terribly interested, when they're getting their daily news, will still hear about the trust fund that way.

Another thing that you might want to consider is some strategic media relations, because occasionally there are things that happen in the fund that are relatively interesting, especially to a segment of the audience, and if you worked at it, you could develop stories and pitch them to specific media instead of sending out news releases, which really don't get covered if they're not controversial and not news of the minute.

The last thing you might want to consider is a single point of contact. There is really no one person who knows everything about the trust fund. You have these great guys in I and D who know all the technical details, you folks know the political considerations, and Diane knows how the meetings run, but there's really no one person who has all the answers. It would be really great if the public who actually had questions could access somebody who had all those answers. If you were using them for that, you could also use them to set up a long-term communication strategy for you to plan what kind of awareness you want over the next several years and how you want people to perceive the fund itself. But basically I think it really comes down to one question, and that is: do you want to inform Albertans about the fund, or do you just want to give them an opportunity to become informed? I think that's what you have to decide as a committee before you decide whether or not you want to do all these things.

THE CHAIRMAN: Okay. Thank you.

Any questions for Karin?

MR. CLEGG: Well, I don't want to take a lot of time because I know we are going to discuss this at a later meeting. You know, I think the communications last time, that advertising -- I even forget the words we had in it -- got everybody's attention, but it still brought nobody out to the meetings. The year before that when I said, "Well, we don't advertise enough," I personally sent out 35 letters, and six showed up at the meeting. So my great suggestion has gone out the window. That didn't work, and then -- what did that headline say?

MR. DOERKSEN: Did it go up in smoke?

MR. CLEGG: Did it go up in smoke? Yeah, right. That didn't seem to be working. I thought that would do something.

I would like to get a report, because I only attended the one in Fort McMurray, and it's a good job somebody came into the building less we'd only have four people. I think we ended up with six or seven; I'm not a hundred percent sure. I don't know the answer, but would somebody here, Diane or somebody, tell me how the other ones were? Were there many people who showed up at the other three meetings?

THE CHAIRMAN: We should have the attendance list. We had less than 20 people in Calgary. We had more than 20 people in Edmonton. We had less than 10 people in both other locations, Fort McMurray and Lethbridge.

MS BROWN: It's hard to compete against hockey games.

MR. SHARIFF: I know that we'll be discussing the specifics at the next meeting, so I won't go into that. However, I think it's timely for us to consider amending the act, specific to point 2(e), where it asks about holding public meetings. We may want to have a miscellaneous amendment to it saying: to communicate with Albertans. That will give us a number of avenues to communicate with Albertans.

THE CHAIRMAN: That is an option we will consider at our next meeting too. If we need to change the act, then we have to do it through the Provincial Treasurer. We have to open the bill up, and hopefully our opposition member on the committee will do his best to make sure that the bill is passed quickly in the House.

MR. SHARIFF: Yeah. It's not going to affect the act overall, and I think the way we have operated, we have had wonderful support from both sides of the membership. In fact, I do remember Debby Carlson at the Calgary presentation talking very highly about how this committee operates and how satisfied she was with the workings of the heritage savings trust fund. She took pride in the good work that we do as a team. So I don't see a problem. I'm sure Bill Bonner will be able to get support from his colleagues as well.

MR. BONNER: Well, I'm certain we'd get tremendous support from all parties when they are part of an all-party committee. I think it's an excellent suggestion.

MR. LOUGHEED: Well, first of all, just a quick comment. If we open up the legislation, perhaps it might be good not to go through too quickly. That way we could increase the exposure and thereby inform more Albertans about the heritage fund. We could maybe hoist it or who knows what?

I really found this to be an excellent little document, Improving Communications, partly because in the last I think about eight or nine days I came across in a coffee shop several situations that were exactly as described here: extreme skepticism that there's any money there, period. Another group was very politically astute, and they had absolutely no knowledge, hadn't seen any advertising, didn't know what amount of money was there. They didn't have a clue about the fund, period, and I would have thought they would have really a great amount of detail even. There were students in school as well without any knowledge about it, which is maybe more than we expected there, and with another group in a meeting, the same kind of thing. I think the ideas presented, some of the alternatives here, are excellent ones.

THE CHAIRMAN: Thank you. During my conversation with Mr. Lougheed, he also raised a very, very good point. Diane, I think we will keep a note of this. He suggested that every year when the Premier makes a speech on TV in January addressing the state of the province, it may be a perfect way to get some public attention on the heritage savings trust fund and the success of the fund. I think that is an excellent idea. I need you to draft a memo for me to sign and recommend that to the Premier so that he includes that in his next speech.

MR. DOERKSEN: Well, a couple of comments. Number one, none of the public knows what we do here at 12 o'clock at night either. We seem to think it's important.

I'm not sure I would agree that we need to change the act, and I go back to the question that we have to face: do we wish to inform or just give them a chance to be informed? I think you have to do both actually. I think it's important to be able to say to people that we gave them the opportunity to come. My response, actually, this time around with the advertising is that I had more people comment to me on the ads than ever before. So there was a message that got out; all right? It was quite easy to read, so I don't think we should necessarily castigate ourselves too badly. I think we made some improvements. We can still improve on that. What I would be interested to know is how many people responded by telephone. I think we had a telephone number on the ads; right?

12:17

MRS. SHUMYLA: We did have a telephone number. I did not keep track of the exact number, but I can compare it to last year, when we had anywhere between 200 and 400 responses, and this year I would say we had under 50 responses. We had very little. As far as the brochures that we had sent out, we had about 20 responses on the tear-out at the back.

MR. DOERKSEN: On the questionnaire. Interesting. Well, we still have some work to do.

THE CHAIRMAN: Thank you. As I indicated earlier, this item will come back at our next meeting, after people have had a chance to go through the recommendations in detail and after we have had some official response from Parliamentary Counsel and also looked at some of the cost effects of the proposal as well. We will discuss it in detail, and we will take a vote at the next meeting as to which direction, which recommendations we will accept.

Is there any other business that you would like to bring up at this point?

The date of our next meeting. We will probably try to set something up to coincide with the third-quarter report so that we can do several things at once, and that could depend on the Treasurer.

MR. SUSINSKI: It will likely be late February or March sometime.

THE CHAIRMAN: Yeah. Okay.

At this time I would like to ask for a motion to adjourn the meeting.

MR. DOERKSEN: I so move.

THE CHAIRMAN: Moved by Mr. Doerksen. Agreed?

HON. MEMBERS: Agreed.

THE CHAIRMAN: Opposed? Carried. Thank you. The meeting is now adjourned.

[The committee adjourned at 12:19 p.m.]