

Title: Monday, March 14, 2005 Heritage Savings Trust Fund Committee

Date: 05/03/14

Time: 9:31 a.m.

[Mr. Liepert in the chair]

The Chair: Let me start by calling the meeting to order. I'll introduce myself, and I would ask that we go around the room and have everyone introduce themselves.

My name is Ron Liepert, and I have the privilege of chairing this committee. It is a privilege because I happened to be in the building some 30 years ago when this heritage trust fund was first put forward, so I consider it a great honour. Before we start, starting with Karen – I think most of you know Karen – we'll go around the room.

Mrs. Sawchuk: Karen Sawchuk, committee clerk.

Mrs. McClellan: Shirley McClellan, MLA for Drumheller-Stettler, minister.

[The following departmental support staff introduced themselves: Ms Armitage, Mr. Berezowsky, Mr. Bhatia, Mr. Pappas, Mr. Parihar, Ms Simard, and Mr. Stratton]

[The following staff of the Auditor General's office introduced themselves: Mr. Dunn and Mr. Hug]

Ms Sorensen: Rhonda Sorensen, communications co-ordinator with the Clerk's office.

[The following members introduced themselves: Mr. Cao, Mr. MacDonald, Mrs. Mather, Mr. Pham, and Mr. Rogers]

The Chair: All right. Thank you very much.

We need a motion to approve the agenda. Could I have someone move that we approve the agenda?

Mr. Rogers: So moved.

The Chair: Good, George. Thanks.

There are attachments in the binder. I think everyone received this fairly lengthy document. It provides an overview of the mandate and authority of the committee. As noted in the primary functions of the committee, we are to review the annual business plan, quarterly and annual reports and the overall performance of the fund, and to hold I believe it's one public meeting during the year. You've got a copy of the act in your binder if you have any questions regarding duties of the committee.

With respect to support we've met Karen and Rhonda, and I can speak very highly of the assistance that they've already provided me, and I think that anyone who needs assistance is asked to contact Karen.

Now, Parliamentary Counsel. Who is that? Is there anyone here?

Mrs. Sawchuk: Actually, they're not here, Mr. Chairman.

The Chair: Not here. That's what I thought. But we do have Parliamentary Counsel to also assist us. We've already met the folks from Finance for technical assistance and the Auditor General as well, Mr. Dunn.

The meetings are held at the call of the chair, and I would like, first, to apologize for the short notice of this meeting. I'm glad that as many could attend as possible, and I'm glad the minister could make it for a brief time.

We were only appointed, I guess, a week and a half ago, and it is required that we have one meeting before the end of the fiscal year of March 31. Going forward, I certainly would like to assure members of the committee that you'll have a lot more notice of meeting time, and I'd just like to thank you for accommodating on short request.

I will keep track of any questions that you might want to ask. As said earlier, meetings are recorded by *Hansard* and transcripts will be circulated. We follow all the rules as set out in the Standing Orders and parliamentary procedure.

I guess now we would move to agenda item 4, which is the budget estimates. You have a copy of the proposed budget for the committee. It appears to be relatively unchanged from previous years, and Karen has suggested that if there are any questions, she would respond to it. Do any members have any questions on the budget for the committee?

Mr. Goudreau: Very, very quickly on the travel. Certainly, it's my understanding that the committee held some public meetings in Grande Prairie, and if that's the case and we do meet outside of the legislative time frame, then I would suggest that the \$11,000 may be way too low if the committee is to travel across the province.

The Chair: Go ahead.

Mrs. Sawchuk: Mr. Chair, thank you. What we've tried to do is budget for contingencies, but we do have the entire committee envelope to pull from if we need to. We've never used our entire travel allotment. You know, it depends on where we go. Last year we just went to Redwater, so the travel costs were very minimal. We try to budget for two meetings outside of session, and we have, fortunately, quite a few Edmonton or Edmonton area members, so travel costs are low again there. But there is an opportunity, if we require additional funds, to pull – I hate to say from other committees – from within our committee envelope as a whole.

Mr. Goudreau: Thank you.

The Chair: One other quick comment on that. Both of our members from the opposition are Edmonton members, and I would certainly try in June to have a meeting, if possible, around a time when government members are here anyway, so hopefully travel – other than if we have the one meeting outside the public meeting. Haven't decided yet what we would do and where that would be, but that would be the one travel issue that I would see.

Wayne.

Mr. Cao: Thank you, Mr. Chair. I'm probably looking more at the budget paper in front here. There is something called advertising, the item called advertising. I'm just curious. We said estimate \$42,000 and forecast is \$8,000, and now we budget for \$21,000. Just give a flavour of that.

The Chair: I'll ask Karen to respond.

Mrs. Sawchuk: Yeah. That one is a little confusing. Actually, when it started out, we tended to try and clump everything together under the heading of advertising, be it brochures or advertising in newspapers. We were looking for a communications heading. Unfortunately, there wasn't one, so what was happening was there used to be – they've now put Other Labour & Services and Advertising. They've split them up. We used to look at them as one item, and that's where our dollars came in, but it really is the same. We

just kind of had to make a separation there for printing costs as opposed to advertising costs, and we've saved money because we now have the in-house communications capabilities that we didn't have previously.

9:40

Mr. Cao: Right. My supplemental question. Thank you for the explanation. I think it is very important to communicate with the average Albertan about the heritage fund because during my meetings with constituents or even during the election people asked questions, and some of them weren't aware. First of all, they said: How much? I mean, that's kind of a basic question: How much is there? Number two is: What do we spend it on? I think we need to spend money on those communications.

The Chair: Well, just let me ask a question with the minister in the room. Do we do, Madam Minister – I wouldn't call it promotion – information and communication on the heritage fund through Finance outside of this committee? My understanding of this committee is that this is more of an administrative budget versus an advertising budget for the fund as such.

Mrs. McClellan: Yeah. If there's information or advertising on the fund, we'd do it through Finance. I think your advertising budget is more if you're going out for a meeting and you'd be letting people know.

The Chair: Precisely. That would be my thinking. This is more just the notices that are put in the newspaper versus the actual communication of what the fund is doing, would be my understanding.

Mr. Cao: Okay. Thank you very much.

The Chair: All right. Any other questions?

Mr. MacDonald: Yes, please, Mr. Chairman.

The Chair: Go ahead.

Mr. MacDonald: Thank you. Could I also have an explanation, please, as to why there is a difference in the other labour and services portion of this budget? There seems to be an increase from one year to the next in the estimates of \$17,000.

Mrs. Sawchuk: We were putting all of the costs that we considered under the communications heading under advertising, so everything from our brochures – like, the actual printing costs of the brochures – to the advertising itself we put under one heading. Our finances asked us to split them so that they'd count the actual work done on these items. Like, they put the printing costs under other labour and services, and advertising is supposed to remain as true advertising only.

The Chair: So if I read this correctly, in this estimate the \$19,000 and the \$21,000 roughly equate to the \$42,000 of last year.
Go ahead.

Mr. MacDonald: Was there an amount left in last year's budget?

Mrs. Sawchuk: There was, but we did not hold all of the meetings we were required to hold.

The Chair: We're not finished yet either, are we? Our year-end is not done.

Mrs. Sawchuk: Well, we are now. This will be our last meeting for the fiscal year.

Mr. MacDonald: So there was a surplus in last year's budget?

Mrs. Sawchuk: There were in all the committees, yes.

Mr. MacDonald: Yeah. Thanks.

The Chair: Okay. Thank you.

Any other questions? Could I then have someone move that the '05-06 Standing Committee on the Heritage Savings Trust Fund budget estimate be approved in the amount of \$88,000 as submitted?

Mr. Goudreau: So moved.

The Chair: Okay. With respect to item 5 and the second quarter update I believe that these are simply . . .

Mr. Rogers: Mr. Chairman, if I may. Are we required to hold a vote on those motions?

The Chair: Yeah. Good point.
All in favour?

Hon. Members: Aye.

The Chair: Thank you.

Then we'll move on to item 5(a). As I understand it, item 5 is simply for information purposes, and these have already been received. We have to move acceptance of them, right? Okay. Do we do that before questions or after?

Mrs. Sawchuk: No.

The Chair: Take questions first. Okay. What I was going to suggest, as we have the minister for just a couple of minutes, is if there are any questions related to the second- or third-quarter reports for the minister, I would ask that we do those first, and then we'll let the minister depart. If there are technical questions relating to the actual investments of the fund for our department officials, if I could ask you to hold off on those for a couple of moments.

Mrs. McClellan: Can I just make a suggestion? I do have to leave, and you actually have all the expertise in the world from Finance here to answer questions of a technical financial nature. If your committee would allow it, I'd like to make just a couple of comments to the committee about the business plan and then go because I do have to be in cabinet, if that's okay.

The Chair: Yes, please do.

Mrs. McClellan: I appreciate coming in to see you. It will not be a practice to sit in on all of your meetings. I feel that you're very capable and competent, and I'd be very interested in what you're doing and what you're discussing, but of course we do have people here that will keep me informed.

I wanted to just say that with the elimination of the debt we're most excited about the ability now to begin inflation-proofing the heritage fund, and you see that in the business plan. Your chairman has a long interest and history in the fund, but not everybody might remember that this started in 1976, and it was to strengthen, diversify, et cetera the economy. We did a major review in 1995.

That was followed up by a subsequent survey just a couple of years ago to sort of validate what we heard, and there were some changes made to the fund and how it's handled as a result of the '95 review.

On the third-quarter, because that was part of what you wanted to talk about, the fund has contributed to this point \$848 million to the GRF in the first nine months of this year. We are forecasting it to be at \$1.03 billion by the end of the year, a very good performance. Of course, those funds are used for priorities such as health, education, infrastructure, et cetera. Members who have not been a member of the committee might be interested to know if you haven't already read it, and I'm sure you have in your copious briefings that you've had, that the fund has contributed \$27 billion to priorities over the lifetime of it.

Because we had made the decision to pay off our debt, we had not been inflation-proofing the fund, but going forward we will be moving to preserve the real value of the fund, and you will see that in the business plan. That's one of the goals in our business plan. Incidentally, legislation does require us to inflation-proof the fund once the debt is paid off.

I think, other than that, I would just mention that the investment management is seeking to increase an additional half per cent of value per year above its policy benchmarks over a five-year investment horizon. Of course, they're always looking at ways to optimize the returns.

I'm very pleased with the heritage fund's performance. I'm confident in the management of it. I'll look forward to any input I have over the period of your tenure on this committee.

Those are really my comments. I have one minute – ministers do that; timing is everything – for questions.

The Chair: Do we have any questions to the minister before she has to leave?

Mrs. McClellan: They really don't have to ask me.

The Chair: Well, I appreciate you making the comments on the business plan, because I didn't go into that.

Mrs. McClellan: I know you'll probably go through it in more detail, and I'll be interested in your comments.

The Chair: Okay. We will excuse you, and I believe that the Member for Dunvegan-Central Peace has to leave for cabinet as well.

Mrs. McClellan: He'd better.

Thank you very much. Have a good day.

The Chair: Any questions on the second-quarter update in your binder? Hearing none, I would entertain a motion, then, that the Heritage Savings Trust Fund Committee . . .

Mr. Cao: Mr. Chair.

The Chair: I'm sorry.

Mr. Cao: Is that a general question or just specific in here?

The Chair: No. If you've got a question, go ahead.

Mr. Cao: Thank you. I don't know who I should address, but probably from the investment side. Now that the federal government has lifted the foreign component of investment, how is that affecting our investment of this portfolio?

Mr. Parihar: Mr. Chairman, I can answer that question. The 30 per cent foreign content rule did not apply to the endowment funds. That rule is for the pension funds. But we did have a self-imposed rule of 40 per cent, and that had a sunset clause on there. So the heritage fund does not have a restriction on foreign content.

Mr. Cao: Thank you.

9:50

The Chair: Any other questions?

All right, then. I need a motion to receive the second-quarter update as distributed. Mr. Pham? I guess, everybody in favour?

Hon. Members: Agreed.

The Chair: Now we'll move on to the third-quarter update and ask if there are any questions on the third-quarter update.

Mr. MacDonald: Mr. Chairman, on page 21 of the third-quarter update, note 8, administrative expenses, when you compare the three months ended from one year to the next, why would there be a significant increase in externally managed investment pool administrative expenses for the nine months ending December 31, 2004, when you compare it to December 31, 2003? Is that routine?

Mr. Parihar: Just to give you a little bit of background there, we manage the investment of the fund. Part of the funds are managed internally; part of the funds are managed externally. The externally managed funds are typically outside of Canada. They are also in some of the asset classes, which are more expensive to manage. We've been increasing the allocation to those asset classes, and the fees for those asset classes are higher than the more liquid asset classes. So two things are happening. One is that the assets are growing, and therefore there are more fees on those, and in those growing assets there are more assets on the alternate asset classes. They're more expensive to manage. The fee itself for some of the asset classes like emerging market and the international small cap are more expensive to manage.

Mr. MacDonald: Thank you.

The Chair: Any other questions?

All right. Can I have a motion, then, that the committee accept the third-quarter update as distributed?

Mr. Rogers: So moved, Mr. Chairman.

The Chair: Everybody in favour? Thank you. Approved.

Okay. Let's move on to item 6, which is the draft business plan, and as mentioned, you all have a copy of it. Does anyone want to make any opening comments with respect to the business plan since the minister has had to leave? Deputy, would you like to make any comments?

Mr. Bhatia: I can comment briefly, Mr. Chairman. Thank you. The heritage fund business plan, as you can see, lays out the overall objectives of the fund, and at a high level the types of investments that the fund can make. Probably the key table to look at in terms of understanding how the heritage fund is invested in a general way is on page 5 of the business plan. You can see there what we call the policy portfolio of the heritage fund, which is the target allocation of the fund over time.

If you look at the 2005-06 column of that table, you can see that

the target allocation is 2 per cent in money market or short-term securities, 33 per cent in bonds, 45 per cent in equities. These are publicly traded equities including Canadian equities, US equities, and non North American equities. Then an allocation of 5 per cent to private equities. These are investments in individual companies that are not traded on stock exchanges. These investments are managed through external managers that we hire for that purpose. Up to 10 per cent in real estate, typically commercial real estate. It could include office buildings, shopping centres: that kind of thing. Finally, 5 per cent in absolute return strategies, which is a relatively new asset class that involves a variety of investment strategies that, again, we access through external managers.

So that is the total allocation of the fund's assets. Then over that, we are commencing a program to actively manage our currency exposure as what we call an overlay to the fund's assets, which means that we don't actually need to allocate the capital of the fund to the currency overlay, but we use strategies, again through an external manager, to vary the currency exposure of the fund and add investment return in that way. Similarly, we also use absolute return strategies to complement some of our other equity investments, including specifically our U.S. equity investments, so that we're not adding to the net assets of the fund but, rather, we're actively managing the investments through what we call absolute returns. So those are noted separately in the plan.

That's the high-level overview of how the fund is invested. With that, then perhaps it's time to ask for any questions.

The Chair: Okay. I have Mr. Pham.

Mr. Pham: Thank you. First I would like to congratulate you, Mr. Chairman, for being appointed chair of the committee. This must be a very exciting experience for you to come back and see the fund that you helped set up many, many years ago now become a full-fledged product.

My first question is to the investment committee. I was chair of this committee for two years, from 1997 to 1998. I remember at that time we did inflation-proofing of the fund, and I thought that that practice would continue. When I read the material, it implied that it has not since that point. Since 1997 until now we have experienced surplus in the province, so I wonder what was the reason for not inflation-proofing the fund from 1998 until now.

Mr. Bhatia: Mr. Chairman, as the minister mentioned, the government's priority was to retire the debt, and the Heritage Savings Trust Fund Act allowed for discretion as to whether the fund was inflation-proofed until such time as the debt is retired. I can't remember the specific years, but there have been a couple of years in the past five or six or seven where the fund was inflation-proofed. In general the government decided to allocate its surplus assets to debt retirement. Now that the debt is retired, the act requires that the fund be inflation-proofed.

Mr. Pham: My second question is for members of our committee. When we look at the mission of the fund – and the mission has not changed for many years – the mission is to provide “the greatest financial returns on those savings” that we have in the heritage saving trust fund. I remember that for many, many years now the Alberta heritage savings trust fund has always operated on a nonpartisan basis. For this reason, all that I could recall were approved unanimously.

10:00

I was a bit concerned when I saw a question being raised in the Legislature about whether certain investments should be made or

certain investments shouldn't be made based on moral or ethical values. If that is the direction that the committee is going to take, then we need to have a frank discussion because I don't think that it is fair to criticize the people who made the investment when their whole goal is to maximize the financial returns on the investments.

I would like to hear from the opposition members as to what your position on making future investments is. Are you going to link investment to ethical values, or are you not going to link it to ethical values?

The Chair: I would leave it up to either of the two opposition members if you wanted to respond. I don't think that there is a requirement by any member of this committee to respond to another member's question, but if either member of the opposition wanted to make a comment, I will accept it. But you're not under any obligation to do so.

Go ahead.

Mrs. Mather: I am very new. I'm a rookie.

The Chair: We all are, Weslyn.

Mrs. Mather: But there are some basic values that are really important to me, and they are human values. I hope they're nonpartisan. So my hope would be that we would be looking into where we're investing money, what kind of endeavours we are supporting through our investments. Are they related? Do they match our values?

The Chair: Let me, if I could hon. member, ask the deputy minister if in fact in making your investments, this concern is taken into account or you are simply following what the Member for Calgary-Montrose has said, that it's a maximization of the heritage savings trust fund. I think a general comment from the folks in Finance would probably be the best we can do in this circumstance because I think we are dealing with a government policy decision more than we are with an actual investment decision.

Mr. Bhatia: Thank you, Mr. Chairman. Yes, as is indicated, the fund's overall objective is to maximize returns. Like most institutional investors, the heritage fund is managed in a way that does not incorporate any specific social objectives or economic development objectives in its investment choices. What we do, again like most other institutional investors, is we pay attention to ensure that we're investing in countries where there is a reasonably established investment market and therefore the companies are subject to general laws. Maybe not exactly the same as in Canada, but they're subject to the general laws of the country.

We also take our responsibilities as an investor very seriously in terms of exercising our proxy voting rights on shares, so to the extent that there are corporate governance types of issues with companies, we will exercise our votes accordingly. But the fund's investment policies do not incorporate any social or economic objectives.

The Chair: I would ask the member from Edmonton-Mill Woods if you had any further questions on that issue. If not, I'd move on to other question.

Mrs. Mather: No. That answers my question, and it's very disappointing. Like you say, it's a policy issue. I understand that we can't do anything about that, but the fact that we in Canada are not taking a stand and demonstrating that through our investments to me is very sad.

The Chair: Thank you.

I have Mr. MacDonald and Mr. Cao.

Mr. MacDonald: Yes. Through the chair, please. What guidelines do other funds use in making investment choices? If there are any guidelines, is it possible at a future meeting for those guidelines to be presented to this committee?

Mr. Bhatia: Maybe I'll ask Jai to comment more specifically on that. I mean, we know the general policies of a number of funds. We might not know all the details of those policies. There may be exceptions, but for the most part institutional investors have similar kinds of policies to what we have. You know, their policies are guided by an asset class allocation like I described: corporate governance policies in terms of exercising votes and so on. I mean, we could see what we could find in terms of other funds' policies and provide them.

I should just mention that similar issues have been discussed by this committee over the past several years, but we'd be pleased to provide any more information that we can on this topic.

If I could, I'd just ask Jai to supplement if he'd care to provide any more specific detail.

The Chair: Absolutely.

Mr. Parihar: Thank you, Mr. Chairman. The question was: are there other funds who have in their investment policy elected to do what generally is called social investing? To my knowledge none of the major investment firms in Canada have a specific guideline for social investing. Most of the firms do have proxy voting guidelines which they use to vote their shares whenever there is an issue on corporate governance, but none of them have either economic diversification kind of guidelines nor social investing guidelines. The objective in most cases is to get the greatest return for the appropriate risk for the beneficiaries. So pension funds want to make sure that they get the best return for the pensioners who are already there or will be there in the future.

The Chair: Okay. If I heard correctly, then, you would try to bring back some information to the next meeting. Is that satisfactory?

Mr. MacDonald: Yes, Mr. Chairman. Thank you. In the meantime it is also possible to please get a complete list of each and every investment the savings trust fund has currently?

Ms Simard: Mr. Chairman, we presently have a complete list for March 31, 2004. We do it once a year, and we can get you a copy of that.

Mr. MacDonald: I would really appreciate that through the clerk. Thank you very much.

The Chair: Thank you.

Mr. Cao.

Mr. Cao: Thank you, Mr. Chair. First of all, I commend you on your appointment and also commend the great work of the finance people and investors in making the best out of this detailed operation, but I believe and I trust their judgment on the ethics as well as on the financial side.

I really believe in ethics, not just the moral subject matter but the way you handle the funds too. So I trust that, and I have no problem. It is my experience in the corporate world and years

working there that if a corporation doesn't have ethics or their objective of operation, they won't draw investors in there. So anything you invest must already have some sort of scrutinizing within the operation of the corporation.

I also want to emphasize a point that this is the saving fund for Alberta, and I don't think that this partisan or political connotation and directing it into somewhere that it would be losing because in politics it's popular one time and not popular another time. If we follow our investment in that kind of public opinion, it is disastrous for the finances of the province.

So I just want to state that off the bat, but I'd like to ask a specific question about the absolute return strategy. I'm not quite aware of what it means. Does it mean that in some investments you have a guarantee of return? Could you help to elaborate, Deputy Minister?

10:10

The Chair: Whoever is the most appropriate to answer, go ahead.

Mr. Parihar: Mr. Chairman, I can answer that question. On the business plan on page 14 under glossary of terms, the first one, the absolute return strategy: basically these are a variety of strategies "with the objective of realizing positive returns regardless of . . . market direction." So markets go up or down, and these strategies are designed to provide a positive return, and there are a number of different strategies listed here, broad types. For example, typically it will be to buy the undervalued security and sell the overvalued securities. There will be fixed income arbitrage, merger arbitrage, long/short strategies. So the objective is that you try to get a positive return regardless of the direction of the market.

Mr. Cao: Thank you.

The Chair: Answer your question?

Any other questions? I don't have anyone else on the list. Mr. MacDonald.

Mr. MacDonald: Yes. For the benefit of some of the members of this committee, could you outline briefly as to why there was a substantial loss in 2002-03 fiscal year of over \$800 million? This was geopolitics, was it not?

Mr. Parihar: Well, if you recall, the equity markets world-wide were down, and when you're invested in equity markets and you are diversified across different countries, there will be times when the market as a whole goes down, and your investment would also go down. That was the case there. So, generally, the equity markets were down, and the fund was down as well.

We did have investment in bonds and other investment classes to diversify the portfolio that obviously helped in not having lost as much as if we had all our investment in equities. If you notice, in the last two years subsequent to that markets have gone up, and the fund has done well in the last two years.

Mr. MacDonald: And the percentage that the fund has invested in these equities has not changed? Right?

Mr. Parihar: Generally, has not changed. If you look at the business plan on page 5, for example, the total equities right now or at least on December 31 were 52 per cent, and it will be decreasing as we make investments in other asset classes.

Mr. MacDonald: Thank you.

The Chair: Other questions? You fellows are getting off easy.

All right then. If there are no further questions, I would ask that we have a motion that the Standing Committee on the Heritage Savings Trust Fund approve the 2005-2008 business plan as circulated. Mr. Pham. All in agreement?

Hon. Members: Agreed.

The Chair: Opposed? It's carried.

We'll now move on to item 7, which is the communications. I'm sorry, but I think we had something just distributed a few minutes ago here. Mike, did you want to speak on this issue?

Mr. Berezowsky: No. There's nothing really that I need to add to that.

The Chair: I haven't had a chance to review it. That's why I'm asking.

Mr. Berezowsky: Oh, sure. No. It's just that in the past it's been the practice of communications to provide information on website hits for the heritage fund.

The Chair: Okay.

Any questions from any members? Mr. Cao.

Mr. Cao: Yeah, I scanned through that, and I think you try to define the number, the count, of people that look into it. I think it doesn't matter which number, the quantity or the volume of hits or the quality. The number of visits is important because the more people look into it, the better it is.

My question is probably more like content. I just asked before about the communication, the content. You got the content from the ministry, right? All of that, and you publish it, and I was wondering how do we do a bit more. I don't know how much we can; there are a lot of community newsletters out there. I'm talking about an urban area; we have community associations, and they do have publications. I was wondering whether you can reach that far and maybe just send them a bulletin or something so that they know about it, and then it's up to them to publish it among the community associations.

Mr. Berezowsky: If I understand what you're saying, we do provide MLA columns and other means of communicating with, like, rural newspapers. Is that what you're talking about?

Mr. Cao: Yes, I think that's what I'm talking about. Perhaps we do have on the Internet now many community associations that have their web pages and so on. I think that you can just shoot that through if you have all their addresses, I hope – the computer these days is fast – rather than going through us, a printed column for MLAs. Then we kind of delay that, but if you have it direct and every community association web page that has an address, you just shoot them an update on the heritage fund. I think that will be helpful because they, in turn, communicate to their members.

Mr. Berezowsky: All right. Thank you.

The Chair: Other questions or comments on communication?

If not, this is an information item only. I guess that the only thing I would ask is: do members feel that this information that's been distributed is useful, and do we want to continue to receive it?

All right, we'll just carry on. I have, according to the agenda, no

other business items, so I would ask members. Mr. Pham?

Mr. Pham: Can I ask the finance people a quick question?

We now have a triple-A credit rating as a province, right? When we borrow money, what is the interest rate that they charge us with a triple-A credit rating?

Mr. Parihar: Well, first of all, we don't borrow money for the heritage fund.

Mr. Pham: I understand that.

Mr. Parihar: We invest money. But just to answer your question there: given that we have a triple-A rating, it depends on what maturity you want to borrow, five year, 10 year. It's very close to where the government of Canada can borrow, so maybe two or three basis points higher than that in the short end; longer term maybe five or seven basis points. Pretty close to where the government of Canada can borrow money.

Mr. Pham: So today we borrow for a three-year term, for example; what is that rate?

Mr. Parihar: I don't have the rate with me right now, but say, for example, 10 year, the rate is close to 4.35 or so. If the province were to borrow, it would be maybe five or seven basis points higher then, so maybe like 4.4 per cent or so.

Mr. Pham: Thank you.

The Chair: Do you have a question, Hugh?

Mr. MacDonald: Yes, please. I guess Other Business is an appropriate place to bring this forward, Mr. Chairman. On further review of the business plan, on page 11, it states that as of December 31, 2004, 68 per cent of the heritage savings trust fund was internally managed. On the previous page I see where the expenses are significantly less than the externally managed portion. How many staff do you have to administer this 68 per cent?

10:20

Mr. Parihar: Let me just elaborate this. We have the people who make the investments and the people who support the investments. We will have approximately 60 people in the front office, the people who make investments, and we'll have about 40 people in the back office, which supports the investment organization, so all together the organization is roughly 100 people.

Mr. MacDonald: They do, in my view, very good work.

Mr. Parihar: Well, thank you.

Mr. MacDonald: Is there a high turnover rate? Or do you have difficulty recruiting people? How does your wage scale compare to the private sector?

Mr. Parihar: We did have difficulty recruiting people before 1998. After that, a new compensation structure was created, which is comparable to the private sector investment compensation structure outside of Toronto, so we have been able to maintain our staff. There is some turnover, but it's not significant.

Mr. MacDonald: Thank you. I appreciate that.

The Chair: Any other questions? Mr. Cao.

Mr. Cao: Probably I'm relating to the business plan. I just want to comment. Directionally the government has the department business plan coming up for discussion and budget and so on in coming years, and you have the heritage fund business plan right here. My question is: the legislation and the changing in the business plan – I'm just talking about endowment set-up and all of those ideas kind of in discussion – would that affect your business plan there?

Mr. Bhatia: Mr. Chairman, I'll answer that question in a couple of parts. With respect to the discussion of endowments, as you're aware, the Access to the Future Act contemplates an additional allocation over time of up to \$3 billion of assets. Just to explain how that will work and how it relates to the heritage fund: when funding is available, assets will be added to the heritage fund. The income will be transferred from the heritage fund to the general revenue fund, just like all of the other income of the heritage fund, but then once it's in the general revenue fund, an amount equivalent to the expected income on those additional assets will be dedicated to the purposes of advanced education. So from the heritage fund's point of view, nothing really changes except that it grows by whatever money is added to the fund.

The government has also indicated that it will, over time, increase the assets in the heritage scholarship fund, the science and engineering research fund, and the medical research fund. What all of that means for us is just an increase in the assets that we manage. Those changes will not fundamentally alter our business plan or the way we

approach it, but it will just add to the volume that we're investing in each asset class. It may marginally increase the effort required, but it's not significant because it's really kind of more of the same.

Mr. Cao: Okay. Thank you.

The Chair: Are there any other general questions? Go ahead.

Mr. Parihar: Mr. Chairman, I just want to clarify the comment which I made earlier. I just didn't want to leave any misunderstanding. The staff complement we have, they not only manage the heritage fund but other investments also. So altogether we manage about \$45 billion, a hundred people for \$45 billion, not just for the heritage fund, which is 12 point something billion dollars. I just wanted to clarify that.

The Chair: All right. It doesn't sound like there are any other questions under Other Business.

Item 9 on the agenda is Date of Next Meeting. As I said at the outset, it's my understanding we would have a meeting in June, and I will ensure that members are canvassed before we set any kind of a date, and we'll try and accommodate your schedules and try and have a full complement of MLAs at the next session. So with that I would just say that we'll leave the call up to the chair.

If I could have someone who would move adjournment. Mr. Cao.

Thank you all for coming, and thanks to the officials for providing the answers. Thank you.

[The committee adjourned at 10:26 a.m.]

