



Legislative Assembly of Alberta

The 27th Legislature  
Second Session

Standing Committee  
on the  
Alberta Heritage Savings Trust Fund

Wednesday, January 27, 2010  
2 p.m.

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**Legislative Assembly of Alberta  
The 27th Legislature  
Second Session**

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

Forsyth, Heather, Calgary-Fish Creek (WA), Chair  
Elniski, Doug, Edmonton-Calder (PC), Deputy Chair

Blakeman, Laurie, Edmonton-Centre (AL)  
Campbell, Robin, West Yellowhead (PC)  
DeLong, Alana, Calgary-Bow (PC)  
Denis, Jonathan, Calgary-Egmont (PC)  
Johnston, Art, Calgary-Hays (PC)  
Kang, Darshan S., Calgary-McCall (AL)  
MacDonald, Hugh, Edmonton-Gold Bar (AL)  
Sandhu, Peter, Edmonton-Manning (PC)\*

\* substitution for Jonathan Denis

**Department of Finance and Enterprise Participants**

Hon. Ted Morton	Minister
Rod Babineau	Manager, Portfolio Analysis
Aaron Brown	Director, Portfolio Management
Rod Matheson	Assistant Deputy Minister, Treasury and Risk Management
Tim Wiles	Deputy Minister

**Alberta Investment Management Corporation Participants**

Leo de Bever	Chief Investment Officer
Douglas Stratton	Director, Fund Management Group

**Auditor General's Office Participants**

Fred Dunn	Auditor General
Merwan Saher	Assistant Auditor General, Audit Division
Betty LaFave	Principal

**Support Staff**

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[Mr. Elniski in the chair]

**The Deputy Chair:** I see by the clock that it's 2 o'clock, so we'll call the meeting to order, and I'll welcome everyone to the meeting today. Before we proceed, I'd just like to note that our committee chair, Heather Forsyth, has joined us today by teleconference.

**Mrs. Forsyth:** Hi, Doug. Thanks.

**The Deputy Chair:** Hi, Heather. She has agreed that I'll be chairing today's meeting. For the record Alana DeLong is also on the phone with us today. Alana, are you out there?

**Ms DeLong:** I'm here, too.

**The Deputy Chair:** Wonderful.

Mr. Peter Sandhu is here as an official substitute for Mr. Jonathan Denis. Thank you very much, Mr. Sandhu.

So I would go around the table and ask all of the committee members and everyone to introduce themselves for the record, starting at my right.

**Mr. Johnston:** Good afternoon. Art Johnston, Calgary-Hays.

**Mr. Campbell:** Robin Campbell, West Yellowhead.

**Mr. MacDonald:** Hugh MacDonald, Edmonton-Gold Bar.

**Mr. Babineau:** Rod Babineau, Alberta Finance and Enterprise.

**Mr. Brown:** Aaron Brown, Alberta Finance and Enterprise.

**Mr. Stratton:** Doug Stratton, AIMCo.

**Mr. Matheson:** Rod Matheson with Alberta Finance and Enterprise.

**Mr. Dunn:** Fred Dunn, Auditor General.

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

**Ms LaFave:** Betty LaFave, office of the Auditor General.

**Ms Sales:** Tracey Sales, communications services with the Legislative Assembly Office.

**Ms Dean:** Shannon Dean, Senior Parliamentary Counsel.

**Mr. Sandhu:** Good afternoon. Peter Sandhu, MLA, Edmonton-Manning.

**Mrs. Dacyshyn:** Corinne Dacyshyn, committee clerk.

**The Deputy Chair:** I'm Doug Elniski, the MLA for Edmonton-Calder, and I'll be chairing the meeting today.

Before we proceed any further, there's a little bit of housekeeping that we need to deal with. As you may all be aware, section 6 of the Legislative Assembly Act relates to teleconferencing at committee meetings. This committee has always allowed participation by telephone by implied consent, meaning that I don't think anybody has ever really said no, but the process has never actually been formally approved. It has raised a potential quorum issue in some

other committees, and I'd like to just maybe address that today if we could here.

There are two options before us. One is understanding that orders of committees are appointed for the duration of the Legislature, so the committee can pass a general motion permitting teleconferencing that would last for the Legislature. This does not preclude the committee from passing a motion at some point in time indicating that that's not okay. Or at the end of the meeting today the committee could consider whether a teleconference is inappropriate for the next meeting, and then we could do this every meeting. So I would entertain either one of those motions, and it would have to be of course passed unanimously.

My recommendation to open it up for discussion, if there is any, would be that we have two options: one is to pass a motion for the duration of the Legislature; two is to repeal and discuss this issue at every meeting. Any questions or comments from anyone?

Mr. MacDonald.

**Mr. MacDonald:** Yes. I don't see a problem with this, and I think it's about time that not only this committee but all committees lived by section 6 of the Legislative Assembly Act. Certainly, it should be a routine part of the business at each meeting to allow members to participate via teleconferencing. Section 6 is silent on whether we could have a global motion to stretch out for the duration of this term of the Legislative Assembly, so it should be just a routine matter of ensuring that section 6 of the Legislative Assembly Act is adhered to.

**The Deputy Chair:** Okay. Parliamentary Counsel has indicated that we're okay with respect to the passing of a global motion, so if we would like to do that, I would entertain that motion.

**Mr. Campbell:** You're talking about a global motion just for this committee?

**The Deputy Chair:** Yes.

**Mr. Campbell:** Okay. I don't have any problem with that.

**The Deputy Chair:** Okay. So would you like to make a motion to that effect?

**Mr. Campbell:** I'll make a motion to that effect, sure.

**The Deputy Chair:** We have some suggested wording here if you'd like to use it, and it would be:

Moved by Robin Campbell that for the duration of the 27th Legislature the Standing Committee on the Alberta Heritage Savings Trust Fund permit committee members to participate in meetings by telephone.

All in favour of the motion? Everybody on the phone? Wonderful. That motion would then be carried. Thank you all very much for that. I appreciate that.

I see that some additional guests have arrived in the room, so if we could break with tradition for a moment and have the fine gentlemen at the far end introduce themselves, please, starting with Leo.

**Dr. de Bever:** I'm Leo de Bever, CEO of AIMCo.

**Dr. Morton:** Ted Morton, Minister of Finance and Enterprise and MLA for Foothills-Rocky View.

**Mr. Wiles:** Tim Wiles, Deputy Minister of Finance and Enterprise.

**The Deputy Chair:** Excellent. Thank you very much.

Moving on to the next item. The agenda has been circulated to everyone. Are there any additions or changes to propose? Hearing none, I would accept the motion that the agenda be accepted. Mr. Campbell. Seconded by Mr. Johnston. All in favour? Okay. The motion is carried. [interjection] Oh, we don't need seconders in committee. That's good to know.

The minutes have also been circulated. Are there any changes or additions to the minutes? Once again, a motion? Mr. Campbell. All in favour? Thank you very much.

Business item 5 today is the 2010-2013 Alberta heritage savings trust fund business plan. The draft business plan was posted on the committee website, but the fund's business plan must be approved by the standing committee. It would be my pleasure at this point in time to turn the meeting over to the Hon. Ted Morton, minister of finance. We welcome you to the first heritage savings trust fund meeting, Mr. Minister, and I turn the proceedings over to you.

**Dr. Morton:** Thank you, Mr. Chair. Likewise, I'm pleased to be here with the committee to present an overview of the heritage fund's 2010-2013 business plan. As the new finance minister I welcome this opportunity to sit down with the committee. It will be the first of many times, I'm sure.

The heritage fund is a key part of the province's fiscal landscape, and the business plan assists in keeping the fund strong and well managed. I'd point out at this point that the plan still has some missing information. We have not included final figures for projected investment income, investment expense, and several others, which will be available when the budget is released.

Within the plan you will find three main goals that will guide the heritage fund for today and tomorrow. The first is to maximize long-term returns at a prudent level of risk, the second is to ensure the heritage fund aligns with the fiscal goals of the government of Alberta, and the third is to ensure the transparency of the heritage fund's objectives and results for Albertans. I'll give you an overview of the details of each of those three goals.

Goal 1. The business plan is focused on ensuring the fund follows prudent investment policy, a policy that balances the level of risk with the goal of high portfolio returns. The strategies associated with this goal include having an ongoing review process for the fund's asset mix, developing a framework for measuring and reporting on risk, and developing risk measures for monitoring risk in the fund. You will notice I've said "risk" about six times in the last paragraph. I'd remind the committee that risk is inherent in investing, and we're working to make sure that we can adequately identify the risk within the fund's investments. We want Albertans to understand that risk is a corollary to return, and we want this committee and all Albertans to understand how we're going to strike that balance.

Goal 2 of the business plan relates to the fact that the heritage fund is Alberta's single largest financial asset and also an important source of revenue for the government. The strategy for the goal, accordingly, includes a focus on currency fluctuations and how they affect the fund. These fluctuations in turn affect the fund's contributions to the government's annual budget's bottom line. Part of this strategy in the coming year will be to determine whether a currency strategy should be applied to the fund, and any members like Dr. de Bever can elaborate on that.

Goal 3 in the business plan relates to making sure Albertans have access to the information they need to understand the heritage fund. The strategies for this goal include the release of documents like the business plan as well as quarterly fiscal updates and an annual report. It also includes holding yearly public meetings like last

September's meeting in Calgary, which I understand had a good turnout. The strategy also includes continuing to improve the access and depth of information available to Albertans by using some of the new communications technology that's becoming available every year.

The remainder of the business plan deals with information on income and expense for the fund, which I've noted will be filled in with the budget. Overall the business plan helps to ensure that the fund is well managed for the benefit of Albertans. I would urge you to approve the plan as presented.

I'd be very pleased to take any questions now. It wouldn't surprise members to know that I might defer to the gentlemen on my left and right to provide detailed answers to your questions.

2:10

**The Deputy Chair:** Thank you very much, Minister. Just before we move to questions for you, I'd like to acknowledge the arrival of Ms Blakeman, the MLA for Edmonton-Centre.

**Ms Blakeman:** My apologies for being late, particularly in light of our guests here. I always like to welcome people to the fabulous constituency of Edmonton-Centre.

**The Deputy Chair:** Had to give you a chance to do that.

Do we have any questions for the minister? Mr. MacDonald.

**Mr. MacDonald:** Yes. Thank you, Mr. Chair, and good afternoon. I'm looking at page 1 in the background that has been provided to us, and in the last paragraph the first sentence reads, "In 2009-10, the Heritage Fund is forecasted to post investment income of \$XX billion." The second-quarter update that has been provided indicates that the forecast for the investment income for the Alberta heritage savings trust fund is to be in excess of \$2 billion, and the main reason for the change from the budget is stronger than expected equity markets. What is the forecast now?

**Dr. Morton:** Can you help me, again, Mr. MacDonald, with the page that you're on?

**Mr. MacDonald:** Page 1.

**Dr. Morton:** Okay. So you're looking at the bottom paragraph?

**Mr. MacDonald:** Yes. Thank you.

**Dr. Morton:** Your question again?

**Mr. MacDonald:** You don't give an amount of what's forecasted for 2009-10. The second-quarter update indicates it could be, hopefully, in excess of \$2 billion. My question is: since the second-quarter update, what is it now?

**Dr. Morton:** There is a number that will be in the third-quarter forecast, that'll be released on the same day as the budget is released.

**Mr. MacDonald:** Okay. So you cannot share that with the committee?

**Dr. Morton:** No, not today. But it'll be available on the release of the third quarter.

**Mr. MacDonald:** Is it more or less than what's in the second quarter?

**Dr. Morton:** Let's save the games for QP, Hugh.

**Mr. MacDonald:** Albertans have a right to know.

**Dr. Morton:** And we're looking forward to telling them.

**Mr. MacDonald:** Okay.

**The Deputy Chair:** Any further questions for the minister?

**Mr. Campbell:** I was just interested if you could maybe give us a brief overview of what we're looking at. I mean, you've said that, you know, if you want high return on your investment, it includes high risk. I'm just curious if you could maybe give us some sort of indication of some of the investments that we're going to be looking at in the future, whether we're going to be going more risk than we have in the past, or we're going to have a more balanced portfolio.

**Dr. Morton:** Dr. de Bever was explaining to me just earlier today our strategy on that issue, so I will defer to him to give you a more informed answer.

**Dr. de Bever:** The basic policy of the heritage fund hasn't changed all that much. It's roughly 50 per cent equities and about 30 per cent fixed income, 20 per cent inflation-sensitive assets, meaning that assets that roughly hold their value with inflation have a real return on top of that. The heritage fund has an 11 per cent allocation to private equity, and that's probably the most volatile component of the thing. So I wouldn't say that the risk level has increased. What may have improved over time or will be improving over time is making sure that we are aware of what the risk is and that we think a little harder about how much return we get on that risk.

As I've told the committee before, most of the return we're going to get from the heritage fund is from its basic policy. The basic behaviour of stock and bond markets is going to drive most of the return. Last year I think we lost about 16 and a half per cent, and most of that was market. This year over nine months – and we don't obviously have the rest of the quarter – we have about a 15 per cent return, so the market has worked with us. We're able to add a little bit to that, but that's roughly the order of magnitude. I should point out to you that with the return on risk we're getting, last year it was unusually negative. This year it's unusually positive, so don't expect 15 per cent every year.

**Mr. Campbell:** Thank you.

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

Mr. MacDonald.

**Mr. MacDonald:** Yes. On page 4 you discuss risks to achieving goals and performance measures. In the fourth bullet of that discussion there is an indication that we have infrastructure investments, bridge loans, and other corporate financing arrangements that provide current income, diversification, and an inflation hedge, and you go on to discuss a number of risks involved in this. What amount of money do we have in the heritage savings trust fund invested in bridge loans?

**Dr. de Bever:** Offhand I don't know what it is. By their very nature they go up and down, right? They're very short-term investments. But the main thing to note is that when you have one of these things, you make sure you really get paid for them because, obviously, they have a higher level of risk than a normal loan. To be honest, at this

particular stage I don't know how much. I mean, we have bridge loans, but I don't know how much is in the heritage fund right now.

The main point of that paragraph, though, is not the specific nature of the instruments but the notion that we take risk in a variety of areas, which in itself is a diversifying element. We make sure we don't put all our chips in one corner. You know, the whole point is to make sure we take diversified risks and that if markets in one area don't do too well, we make it up somewhere else.

**Mr. MacDonald:** Can you give me an example, please, of when and to whom you would make a bridge loan?

**Dr. de Bever:** An entity to whom we would make a bridge loan? Say that a real estate project is close to completion. The prelude to a mortgage may be a bridge loan. If we are reasonably satisfied that the risk is worth it, we may put a bridge loan on that. We sometimes do it, say, when a company is ready to do an equity issue, but they need some short-term cash. We'll lend them the cash, knowing that in a little while they'll repatriate the money or repay the money by floating the equity. Those are some of the circumstances.

What we like to do – and I think we hope to make more money than most people – is look at unusual things. If you try to invest in something that a hundred other people have looked into, chances are the returns are going to be pretty skimpy. We tend to make our best money, or our highest returns, in areas where we think we have a little bit more information than other people and, as a result, can evaluate risks and returns a little bit better. That's just the nature of what AIMCo will be trying to do, and you'll see it in a number of the deals that we've done in the last 18 months.

**Mr. MacDonald:** Thank you.

**The Deputy Chair:** Any further questions for the minister?

Seeing none, I would entertain a motion to approve the 2010-2013 business plan as circulated.

Mr. Johnston. Second? Sandhu. All in favour? Wonderful. Thank you very much.

**Ms Blakeman:** Excuse me.

**The Deputy Chair:** Yes.

**Ms Blakeman:** Can you note those that are against, please?

**The Deputy Chair:** Okay. Opposition noted. Can we have the vote again, please? All in favour? Opposed? The motion is carried.

**Ms Blakeman:** With the opposition noted. Thank you.

**The Deputy Chair:** With the opposition noted.

**Ms Blakeman:** The reason I'm doing that, Mr. Chairperson, is that otherwise it doesn't show up on *Hansard*. All we get is that the motion is carried, and it doesn't show that there was opposition to the motion.

Thank you.

**The Deputy Chair:** Okay. You're welcome.

Thank you, Mr. Minister. I appreciate your time and attention today. We do have some other business to attend to, but you are welcome to leave now if you prefer.

**Dr. Morton:** Other duties call.

**The Deputy Chair:** I'm not surprised. Thank you very much.

Okay. Moving on to item 6 in the agenda, the communications update, definition of a public meeting. This is a follow-up from the last committee meeting, where there was some discussion with regard to the definition of the term "public meeting" as used by the Alberta Heritage Savings Trust Fund Act. To follow up on this, Senior Parliamentary Counsel has provided us with an opinion in a memo that was dated December 18, 2009, and a copy of the memo was distributed to all committee members. Is there any discussion arising out of that?

Seeing none, we'll move right along. Any other business? Any other business items to raise? We're just making good time here.

**2:20**

Moving right along, we'll talk about the date of the next meeting. The date of the next meeting will be at the call of the chair. It'll be

at the end of February or early March, for the purpose of receiving the third-quarter reports on the fund.

Before we adjourn, I would just like to draw the committee's attention to the imminent departure of our honoured and cherished friend the Auditor General, Mr. Fred Dunn. I understand his last day of service with us is the 12th of February. On behalf of this committee I'd like to express to you our heartfelt thanks for your participation and for keeping us on the straight and narrow. I very much appreciate that, Fred.

**Mr. Dunn:** Thank you.

**The Deputy Chair:** Seeing no further business, I would entertain a motion to adjourn. Mr. Johnston.

Thank you very much, ladies and gentlemen. That's a wrap.

[The committee adjourned at 2:21 p.m.]



