



Legislative Assembly of Alberta

The 27th Legislature
Third Session

Standing Committee
on the
Alberta Heritage Savings Trust Fund

Tuesday, September 28, 2010
9:01 a.m.

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Third Session**

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

Tarchuk, Janis, Banff-Cochrane (PC), Chair
Elniski, Doug, Edmonton-Calder (PC), Deputy Chair

Blakeman, Laurie, Edmonton-Centre (AL)
DeLong, Alana, Calgary-Bow (PC)
Forsyth, Heather, Calgary-Fish Creek (WA)
Groeneveld, George, Highwood (PC)
Johnston, Art, Calgary-Hays (PC)
MacDonald, Hugh, Edmonton-Gold Bar (AL)
Pastoor, Bridget Brennan, Lethbridge-East (AL)*
Quest, Dave, Strathcona (PC)

* substitution for Laurie Blakeman

Department of Finance and Enterprise Participants

Aaron Brown	Director, Portfolio Management
Sandie Hay	Manager, Investment Accounting and Standards
Nick Kaczmarek	Public Affairs Officer
Rod Matheson	Assistant Deputy Minister, Treasury and Risk Management
Dave Pappas	Senior Manager, Investment and Debt Accounting

Alberta Investment Management Corporation Participants

Brian Gibson	Senior Vice-president, Public Equities
Douglas Stratton	Senior Vice-president, Fund Management Group

Auditor General's Office Participants

Merwan Saher	Auditor General
Brad Ireland	Assistant Auditor General

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Diana Staley	Research Officer
Rachel Stein	Research Officer
Liz Sim	Managing Editor of <i>Alberta Hansard</i>

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Tuesday, September 28, 2010

[Ms Tarchuk in the chair]

The Chair: Well, good morning, everyone, and welcome. I'd like to call this meeting to order. My name is Janis Tarchuk, MLA for Banff-Cochrane and chair of this committee. I also would like to welcome Bridget as a new member, I understand.

Ms Pastoor: Just a substitute.

The Chair: Oh, a substitute.

I understand we've got Heather and Alana on the phone.

Mrs. Forsyth: Yes.

The Chair: Perfect. Okay. Thank you.

I wonder if we could go around the table and for the record introduce ourselves. Maybe let's start with Alana and Heather, and then we'll go over to Bridget.

Mrs. Forsyth: Hi. Good morning. It's Heather Forsyth. I'm the MLA for Calgary-Fish Creek. Thank you, Chair.

Ms DeLong: Good morning. It's Alana DeLong, Calgary-Bow.

Ms Pastoor: Good morning, Madam Chair. Bridget Pastoor, MLA, Lethbridge-East, substituting for Laurie Blakeman.

Mr. MacDonald: Good morning, everyone. Hugh MacDonald, Edmonton-Gold Bar.

Mr. Ireland: Brad Ireland, Auditor General's office.

Mr. Saher: Good morning. Merwan Saher, Auditor General.

Mr. Stratton: Good morning. Doug Stratton, Alberta Investment Management Corporation.

Mr. Gibson: I'm Brian Gibson. I'm senior vice-president of equities for AIMCo.

Mr. Matheson: Good morning. Rod Matheson. I'm an assistant deputy minister with the Finance and Enterprise department.

Mr. Brown: Good morning. Aaron Brown, Alberta Finance and Enterprise.

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

Mr. Pappas: Dave Pappas, Alberta Finance and Enterprise.

Ms Hay: Sandie Hay, Alberta Finance and Enterprise.

Mr. Kaczmarek: Nick Kaczmarek, Alberta Finance and Enterprise.

Mr. Quest: Dave Quest, MLA, Strathcona.

Mr. Groeneveld: George Groeneveld, Highwood.

The Chair: Okay. Thank you. You should all have a copy of the agenda in front of you. I wonder if someone can move that the agenda for September 28 for this committee be adopted as circulated.

Mr. Groeneveld: I can do that.

The Chair: George. Any objections? All those in favour? That motion is carried.

You should also have a copy of the minutes of June 17. I wonder if someone can move that we adopt those as circulated. Dave. Any objections? All in favour? That motion is carried.

The quarterly update was distributed to all members on August 25. The Alberta Heritage Savings Trust Fund Act indicates that one of the functions of this committee is to receive and review quarterly reports on the operation and the results of the operation of the heritage fund. We're pleased to have Rod Matheson with us here today. I wonder if, Rod, you could just start out by giving us a little bit of an overview.

Mr. Matheson: I would be very pleased to do that, Madam Chair. Good morning to the members of the committee. I'm pleased to provide you with a brief review of the first-quarter update for the heritage fund, which was released on August 25. Unfortunately, the slowing pace of global economic recovery and the resulting decline in world equity markets led to a \$282 million drop in the fair value of the heritage fund during the quarter. At June 30, 2010, the fund's fair value was \$14.1 billion dollars, declining from \$14.4 billion dollars at March 31, 2010. This \$282 million drop in value included a net loss of \$164 million in the first quarter plus a \$118 million decline in unrealized portfolio gains. Unrealized gains represent the profit that would be made if the assets involved were sold at current prices.

Overall, on a fair value basis the fund's investments lost 2.1 per cent in the quarter. That outperformed the market-based benchmark for the fund, which would have had a loss of 2.6 per cent. Losses were in the fund's equity portfolio, with foreign equities posting a loss of 8.8 per cent and Canadian equities losing 4.8 per cent in the quarter. Both of these losses were better than the benchmark losses of 8.9 per cent and 5.5 per cent respectively. Losses in the fund's equity portfolio were partially offset by gains in every other asset class in the fund. Real estate, for example, posted a gain of 5.7 per cent this quarter, better than the benchmark of 3.5 per cent.

The heritage fund is now expected to earn investment income before expenses of \$684 million for the fiscal year 2010-11.

That will conclude my brief remarks to the committee, Madam Chair. We'd be pleased to answer any questions that the committee members have.

The Chair: Questions? Alana or Heather?

Mrs. Forsyth: I have a question, Madam Chair, if you could put me on the list.

The Chair: Go ahead, Heather.

Mrs. Forsyth: Oh, thanks. Thanks for the brief presentation. You mentioned about the real estate gain. I think you said 5.5 per cent over this quarter. Now we're hearing and reading in regard to real estate dropping dramatically. I just read an article about Calgary. What are you doing about that?

Mr. Matheson: I think I'd direct that question to my colleagues from AIMCo, if they have any insights on that.

Mr. Gibson: Okay. Thank you, Rod. Good morning. The real estate assets are long-term assets. We value them every year. The benchmark does move up and down over time. What happened last

year, for example, when you saw a negative result, was that the portfolio was fairly stable and the cash flows were pretty healthy, but the benchmark was up. This year we've had that reversal so far, where our portfolios carried on as generating good, strong cash flows from rentals: the income is up, and the benchmark lagged. I won't go into the details, but there is always a lag between the portfolio and the benchmark because of the way the benchmark is constructed.

Your question is about Calgary specifically. When we look at our portfolio, we are more concerned with generating good, long-term cash flows. We haven't seen in our portfolio any need for any writedowns or negative adjustments since year-end. So for the specific buildings we have it has not really been an issue. Having said that, where there are weak markets, it does create opportunities to buy good, quality real estate at a cheaper price, and our people are looking at those sorts of things.

Mrs. Forsyth: Thank you, Madam Chair.

The Chair: Hugh.

Mr. MacDonald: Yes. Thank you. My question at this time would be around the fund's investment loss of 2.1 per cent in this quarter. When you compare AIMCo's strategy with others – we could pick, for instance, Ontario teachers'; we could pick British Columbia; we could pick the CPP investment pool; we could look at private-sector Fairfax – how are you comparing with those operations? Do they have the same losses, less, or more?

Mr. Gibson: Okay. Thanks, Hugh. That's a pretty interesting question. I'll take it so that Rod doesn't have to struggle with that one.

When we look at our results, we do look at our peers because it's very useful to know: are we in general adding value or not adding value compared to how other people are doing? Where we have to be careful with the comparisons is that each of our clients has their own specific needs and requirements. The asset mix that we would have for the heritage fund, for example, is very specific to the needs of the heritage fund. When we compare ourselves to firms like teachers' or CPP, as you mentioned, we have to be careful to adjust for differences in target asset mix, so their ranges for bonds and equities will be different.

9:10

Having said all that, in the past year it has been very challenging for most managers to match or exceed the market returns. The one thing that's very encouraging to us at AIMCo is that after all the work we've done, we're starting to see our results track better than the markets. We're also keeping a close eye on asset mix so that if markets go up or down, we can do our best to be on the right side of those changes. We think that so far this year we're tracking very well, both against our peers and the markets, but you have to adjust for the differences in asset mix.

Mr. Matheson: If I could just supplement what Brian said. I think Brian made a good point that this is the result for the heritage fund. This is not necessarily the result that all of AIMCo would have produced for that quarter because every one of the major funds – each of the heritage fund plus the other government endowments and each of the large public-sector pension plans – would all have different asset mixes that would be based on, in the case of the pension plans, the boards that would set that asset mix. In the case of funds like the heritage fund the minister of finance sets the broad asset mix. So the broad investment results are as much a function of

how the assets are allocated versus the specific performance of, you know, which stocks were picked or which bonds were picked.

The results for this quarter for the heritage fund would be different than the results for, say, one of the large public-sector pension plans or some of the other endowments. We do look at the performance of the heritage fund relative to some of the funds that you mentioned although we tend to not do that on a quarter-by-quarter basis. Quarters are pretty short periods of time to try to compare investment performance like that.

The Chair: I should mention for the record that Art Johnston, MLA for Calgary-Hays, and Doug Elniski, deputy chair and MLA for Edmonton-Calder, have joined the meeting.

Are there other questions?

Ms DeLong: Yes.

The Chair: Go ahead, Alana.

Ms DeLong: I've got a question specifically for AIMCo. In our changing financial situation in the world, in terms of our overall goals with the heritage savings trust fund, have we given you enough flexibility in terms of changing the asset mix?

Mr. Gibson: Okay. I'll try to answer that. There is a pretty good range that this committee has set around the targets for each of the different assets, and that gives us pretty reasonable flexibility to be a little bit overweight bonds or underweight equities or what have you. So we don't have any concerns that way. It's pretty collaborative. We work a lot with Rod and his staff to understand the needs of the fund so that we can where it makes sense skew things in the right way. We don't have any handcuffs, really, given the mandate and given the relationship with the finance staff.

Does that answer your question?

Ms DeLong: Yes. That's what I wanted to know.

The Chair: Are there any other questions? None on the telephones?

Mrs. Forsyth: No. I asked mine. Thanks, Madam Chair.

The Chair: Okay. Would a member like to move that we receive the report.

Mr. Groeneveld: Just a quick comment on the humorous side there when you said it may be a good time to pick up some real estate. You understand what happened to Stephen Harper when he said to people to go out and buy some stocks when things went down?

Mr. Gibson: Lucky for all of us he's not working for the heritage fund.

Mr. Groeneveld: Yes.
I will move that.

The Chair: Okay. Any objections? All those in favour? That motion is carried.

The next item is the communications action plan. As members know, our next meeting is our annual public meeting. It's scheduled in Lethbridge on the evening of Wednesday, October 20. The location for the meeting is in the Sterndale Bennett Theatre at the Yates Memorial Centre in Lethbridge, and we will be broadcasting live on Shaw further to the direction of the committee.

At this time, Tracey, can I ask you to just kind of present the action plan to date? Thank you.

Ms Sales: Thank you, Madam Chair. Last week the action plan for the public meeting was posted for your information on the internal website. The action plan outlines the major initiatives being undertaken in support of the public meeting. As you are aware, the public meeting will be broadcast live on Shaw, so up to this point there has been quite a lot of co-ordination with Shaw to ensure that this does come to fruition. Additionally, the video of the meeting will also be streamed live on the Legislative Assembly website.

Following this meeting, we're hoping to move ahead on the production of the advertisements, the promos, the media: all of those sorts of initiatives that are listed in the action plan. Are there any questions about the action plan?

The Chair: Bridget.

Ms Pastoor: Thank you, Madam Chair. What have you based the selection of the site on in terms of seating?

Ms Sales: Okay. Actually, when we were co-ordinating with Shaw, we told them the location, and we did ask them to suggest some sites that they thought would work very well for television, and they did recommend this site. As well, this site can hold up to a hundred people, so it's actually very easy for them. It's a theatre – right? – but the seating is not stationary.

Ms Pastoor: I come from Lethbridge.

Ms Sales: The seating is on risers, so they have told us that they can move it around, adjust the seating, that sort of thing. It sounds like it's actually quite flexible, the location.

Ms Pastoor: Okay. I'm just concerned because I'm really hoping that many people will take an interest in this.

Ms Sales: Absolutely.

The Chair: Any other questions for Tracey? Okay. Hearing none, seeing none, I wonder if I could make a suggestion because it sounds, Tracey, like there are still some logistics to work out and some details in terms of the communication and whatnot. I wonder if it would make sense that we have a motion that

the chair and the deputy chair continue to work with you and staff and finalize the communication details.

We accept the action plan to date. Well, most of it is based on what we agreed at the last meeting, but do you think we could entertain that motion, and then you and I will communicate with the committee?

Mrs. Forsyth: I'll move that motion, Madam Chair.

The Chair: Okay. Thanks, Heather. Corinne was just pointing out that that would include the authorization for advertisements. Any objections? All those in favour? That motion is carried.

Ms Pastoor: I'm sorry. I just had one more concern about that site. I'm assuming that we're going to get the older population, and those risers are difficult to get up and on, so maybe somebody could be there to help them.

Ms Sales: Yeah, or we could also arrange for other, additional seating possibly.

Ms Pastoor: There won't be room for that, so if there's somebody there to maybe help some of the older ones.

Ms Sales: Yeah. I'm sure that we can handle the logistics on that.

The Chair: Okay. And that reminded me that I thought it would be a good idea – and it's going to be easy with you, Bridget; I understand you're going to be a substitute at that meeting as well – to invite both MLAs from Lethbridge.

Ms Pastoor: Actually, all the southern Alberta MLAs could be invited.

The Chair: All MLAs will get an invitation, but invite the two local MLAs to be there maybe to welcome at the start of the meeting or, you know, have some kind of a role. I'll proceed with talking with Greg.

The other thing I wanted to double-check. I haven't been part of this public meeting before, but it seems that there have been different ways that it was approached in the past, and I just wanted to run it by the committee. Do we think it's a good idea to have every member take a part of the presentation? I guess that isn't always the case, so when we proceed with polling information that we might want to present to that, are we looking at all of the members, or did you just want a handful of members to present? Has anybody got some thoughts on that?

Mrs. Forsyth: Madam Chair, as the previous chair of the committee we tried both. The first year we tried to have everyone participate, and at that particular time the members of the opposition declined. Then last year I can't remember. Sorry. It's at the will of the committee what they choose to do, I think.

9:20

Mr. MacDonald: Well, for the record I believe last year Mrs. Forsyth was absent. The meeting was held in Calgary on Macleod Trail in a rather nice place, Carriage House. There were speeches circulated for all members, but some members, including this one, as I recall, did not participate but certainly participated in the meeting to the point where I felt frustrated that the chair at the time was limiting and restricting our ability to ask questions regarding the financial statements. I hope that doesn't happen this year.

The Chair: So could I ask: did you want to be part of the presentation this year?

Mr. MacDonald: I'm not that excited about being part of the official government presentation, no.

The Chair: Okay

Ms Pastoor: I think that because I'm a substitute, I would probably be more comfortable not doing that, but I'm delighted to be able to welcome. If there are questions, then fine, but no.

The Chair: Okay. This is really helpful.

Ms Pastoor: Maybe somebody really knowledgeable would help.

The Chair: Yeah. This is helpful. Heather, did you want to be part of the presentation?

Mrs. Forsyth: No. I'll also decline. I'll sit there as an observer.

The Chair: Okay. Then we will proceed with the presentation being shared among the government members, so I'm glad that we have that clarification.

Moving on to item 6, at the last meeting you had asked for more specific information on the website hits. All of you could have had access to a memo from Deputy Minister Tim Wiles. You should all have a copy. I wonder: are there any questions? I think Nick is here today and could answer any questions that you have.

Mrs. Forsyth: Janis, if I may.

The Chair: Sure.

Mrs. Forsyth: I just want to compliment what they've done here. This is something that's kind of been a bee in my bonnet, to try and get the statistics as clear as they are. I think they have done a good job in breaking down all of the hits, et cetera, so my compliments go to the people that were involved in that.

The Chair: Yeah. Thanks, Heather.

Okay. Any other comments? Questions? No?

Moving on to item 7, as everyone is aware, the committee must

report annually to the Legislature. This draft report was posted on the internal committee website, and it will be tabled by the chair in the Legislature during the next session. Does anybody have any comments or questions? If not, I wonder if someone could move that

we adopt this report.

Mr. Johnston: I don't have a question. I was just adopting it. We didn't have questions.

Ms DeLong: And I'll second it.

The Chair: Okay. Thank you. Any objections? All those in favour? That motion is carried.

Is there any other business that members would like to raise? Seeing none, the date of the next meeting is, as we discussed, scheduled for October 20. After that we'll talk about a meeting date in December following the second quarter update. If we could have a motion to adjourn? Dave. Any objections? All those in favour? Thank you. The motion is carried.

[The committee adjourned at 9:24 a.m.]

