



Legislative Assembly of Alberta

The 28th Legislature
First Session

Standing Committee
on the
Alberta Heritage Savings Trust Fund

Monday, September 9, 2013
1:02 p.m.

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**Legislative Assembly of Alberta
The 28th Legislature
First Session**

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

Khan, Stephen, St. Albert (PC), Chair
Jablonski, Mary Anne, Red Deer-North (PC), Deputy Chair

Anderson, Rob, Airdrie (W)
Bhardwaj, Naresh, Edmonton-Ellerslie (PC)*
Casey, Ron, Banff-Cochrane (PC)
Dorward, David C., Edmonton-Gold Bar (PC)
Eggen, David, Edmonton-Calder (ND)
Kubinec, Maureen, Barrhead-Morinville-Westlock (PC)
Pedersen, Blake, Medicine Hat (W)**
Sandhu, Peter, Edmonton-Manning (Ind)
Sherman, Dr. Raj, Edmonton-Meadowlark (AL)

* substitution for David Dorward
** substitution for Rob Anderson

Office of the Auditor General Participants

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Robert Driesen	Assistant Auditor General

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Jeanette Dotimas	Communications Consultant
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**Standing Committee on the
Alberta Heritage Savings Trust Fund**

Participants

Ministry of Treasury Board and Finance

Rod Babineau, Manager, Portfolio Analysis

Lowell Epp, Executive Director, Capital Markets

Darcy Scott, Public Affairs Officer

Alberta Investment Management Corporation

Darren Baccus, Associate General Legal Counsel

Leo de Bever, Chief Executive Officer

1:02 p.m. Monday, September 9, 2013

[Mr. Khan in the chair]

The Chair: We're on. Okay. Thank you. I'd like to call the meeting to order, to welcome everybody here today.

We have a few substitutes, so if we could start by way of introductions. We'll start on my right.

Mrs. Jablonski: Good afternoon, everyone. Mary Anne Jablonski, Red Deer-North.

Mr. Sandhu: Good afternoon, everyone. Peter Sandhu, Edmonton-Manning.

Ms Kubinec: Good afternoon. Maureen Kubinec, Barrhead-Morinville-Westlock.

Mr. Pedersen: Good afternoon. Blake Pedersen, MLA, Medicine Hat, substituting for Rob Anderson.

Mr. Bhardwaj: Hi. Good afternoon. Naresh Bhardwaj, MLA, Edmonton-Ellerslie, substituting for David Dorward.

Mr. Scott: Darcy Scott, communications branch, Treasury Board and Finance.

Mr. Baccus: Darren Baccus, associate general counsel, AIMCo.

Dr. de Bever: Leo de Bever, CEO, AIMCo.

Mr. Epp: Lowell Epp, Department of Treasury Board and Finance.

Mr. Babineau: Rod Babineau, Treasury Board and Finance.

Mr. Casey: Ron Casey, MLA, Banff-Cochrane.

Mr. Driesen: Rob Driesen, Assistant Auditor General.

Ms Sales: Tracey Sales, communications, Legislative Assembly Office.

Ms Dotimas: Jeanette Dotimas, communications, Legislative Assembly Office.

Ms Dean: Shannon Dean, Senior Parliamentary Counsel and director of House services.

Mrs. Dacyshyn: Corinne Dacyshyn, committee clerk.

The Chair: Thank you very much.

This is our first meeting since the summer. I trust everybody had a nice and restful summer.

We'll get right into it. Our meeting materials were posted on the internal committee website last week.

A few housekeeping items need to be addressed before we get to our business at hand. I'll remind everybody that the microphone consoles are operated by the *Hansard* staff. Please keep cellphones, iPhones, BlackBerrys off the table as these may interfere with our audiofeed. Audio of the committee proceedings is streamed live on the Internet and recorded by *Hansard*. Audio access and meeting transcripts are obtained via the Legislative Assembly website.

We'd like to proceed with the approval of the agenda. The agenda has been circulated. A proposed draft motion: could we have somebody move that we pass the agenda? Thank you. May it be moved by Mary Anne Jablonski that the agenda for the

September 9, 2013, meeting of the Standing Committee on the Alberta Heritage Savings Trust Fund be adopted as circulated. Thank you.

Welcome. We'll revert to introductions.

Mr. Eggen: Thank you. I'm Dave Eggen. I'm the MLA for Edmonton-Calder.

The Chair: Thank you.

As for the draft agenda: all in favour? Any objections? That motion is carried.

We'll move next to a motion for the approval of minutes. Moved by Peter Sandhu that the minutes of the June 20, 2013, meeting of the Standing Committee on the Alberta Heritage Savings Trust Fund be adopted as circulated. All in favour? Any objections? That motion is carried.

That takes us to item 4, the Alberta heritage savings trust fund first-quarter report for 2013-2014. The Alberta heritage savings trust fund first-quarter report for 2013-2014 was distributed to all members of the Assembly on August 29. The Alberta Heritage Savings Trust Fund Act indicates that one of the functions of this committee is to review and receive quarterly reports on the operation and results of the operation of the heritage fund.

We are pleased to have Mr. Lowell Epp, executive director of capital markets, here to assist us with our review. At this time I'd like to turn the floor over to Mr. Epp.

Mr. Epp: Thank you, Mr. Chair, and thank you to the members of the committee. Good afternoon. As the chair indicated, my name is Lowell Epp. I'm the executive director of capital markets, Treasury Board and Finance. I am here today on behalf of Minister Horner, who sends his regrets. I recognize that the members of the committee have received the fund's first-quarter update last week, and therefore I will keep my remarks brief.

Near the end of the quarter that we're talking about, April 1 through June 30, interest rates rose as the market anticipated the winding down of the U.S. Federal Reserve stimulus program. Weak global growth affected commodities to the downside, which in turn affected the Canadian stock market. Other markets were propelled higher as investors went in search of better returns. These market factors all had an effect on the fund's performance over the first three months of 2013-14.

At the end of the first quarter the fund's fair value was \$16.6 billion. The fund's performance was modest, with the fund providing a 1 per cent return over the first quarter, narrowly beating its .9 per cent performance benchmark. Gross income was \$416 million, and net income was \$387 million after \$29 million in expenses. The strongest performer was the fund's inflation-sensitive and alternative investment portfolio, which returned 2 per cent. This was offset by poor performance in the fixed-income portfolio, which lost 1 and a half per cent. Equities returned 1.6 per cent, thanks to the fund's position in global equities. You can see a more detailed breakdown of the asset-class returns on page 2 of the fund's first-quarter report.

In terms of investment income the fund's equity portfolio earned \$323 million in gross income due mostly to capital gains on investments. The fixed-income portfolio earned \$38 million due to interest payments on bonds, and the inflation-sensitive and alternative portfolio earned \$55 million mostly for rents and cash flows on investments. No investments in this class were bought or sold during the first quarter.

The fund's asset mix remains well within policy ranges set by the department. As you can see, on the chart on page 4 the ranges

are wide enough to give AIMCo the day-to-day flexibility it needs to respond to market conditions and emerging opportunities.

I should also mention that \$320 million of the fund's net income is payable to the general revenue fund with the other \$67 million being retained in the fund for inflation-proofing. As you know, the government has been withdrawing income from the fund for several years to fund Albertans' priorities, over \$34 billion since the fund's inception in 1976. The days of this practice are winding down with the introduction of a new legislated savings plan that will see the fund retain all of its income by 2017. This will contribute to the fund's growth moving forward.

That concludes my remarks for today. I would be happy to respond to any questions you may have.

The Chair: Thank you very much, Mr. Epp.

Are there any questions from the floor?

Mr. Eggen: Thank you for your summary. I just wanted to ask if you could elaborate more on how you might see this next quarter developing. We clearly saw some of our investments based on domestic markets stagnate, but are there any indications that we would perhaps change our investment strategy and/or expect those same investments to perform better?

1:10

Mr. Epp: I will turn the floor over to our investment manager.

Dr. de Bever: First of all, we have a long-term strategy. Yes, we make some tactical bets, but they're not large because, frankly, our ability to foresee the future, particularly the short-term future, is not great. It's almost easier to have a longer term view, and that longer term view says that bonds for the foreseeable future are not going to do very well. As we saw in the last quarter that we just reported on, the bond market was down quite sharply. We didn't get hurt quite as much as we would have if we hadn't taken the tactical position of being short duration, so at least we got that one right.

So far this year we have an average year, maybe slightly above average. Equities are doing better than almost anyone would have expected. But who knows? I mean, with all the uncertainty around Syria and a few other things, the end of loose monetary policy, all sorts of things may happen in the short run. My guess is that we're going to end the calendar year as a fairly average year, 6 to 8 per cent maybe, in that range.

Mr. Eggen: Thank you.

The Chair: At this moment I'd like to revert to introductions.

Dr. Sherman: Raj Sherman, Edmonton-Meadowlark.

The Chair: Thank you.

Do we have any more questions for Mr. Epp?

Mr. Epp, I'd like to thank you very much for your report and Dr. de Bever for that information.

Would we have a member who would like to move that the committee receive the report? Moved by Mr. Bhardwaj that the Standing Committee on the Alberta Heritage Savings Trust Fund receive the 2013-2014 first-quarter report on the Alberta heritage savings trust fund as presented.

Thank you. All in favour? Any objections? Thank you. That motion is passed.

Moving along to item 5, the draft report of the standing committee for the Legislature. As members are aware, this committee must report annually to the Legislature. A draft report was posted to the internal committee website and included the

results of the heritage fund online survey conducted by the committee and transmitted to the associate minister earlier this year. This report will be tabled by the chair in the Legislature during the next session. Does anyone at this time have any questions or comments regarding the report? If not, would a member like to move the adoption of this report? Mr. Casey, thank you. Moved by Mr. Casey that

the Standing Committee on the Alberta Heritage Savings Trust Fund approve the draft report of the Standing Committee on the Alberta Heritage Savings Trust Fund Covering Activities Related to the 2012-2013 Fiscal Year as distributed.

All in favour of this motion? Are there any opposed? That motion is adopted. Thank you.

Moving forward to item 6 on the agenda, communications: our annual public meeting update. As committee members are aware, the committee's 2013 annual public meeting is scheduled to be held in Edmonton on the evening of Wednesday, October 2. The location for the meeting is again the Oasis Centre in the west end of Edmonton. In order to expand the reach of the public meeting province-wide and in the interest of keeping all Albertans informed on the fund, the public meeting will again be broadcast live on Shaw TV with an online chat component, further to the committee's direction.

Further to the communications plan approved by the committee, communication is moving forward with initiatives to promote and execute the public meeting, including updated statistics cards and posters promoting the public meeting, which were all sent to members' constituency offices last week. Committee members received 100 cards, and I strongly encourage all of you to distribute these to your constituents and to promote our public meeting so we may update folks on the status of the fund. As well, all advertising initiatives are in order and under way. An e-card promoting the public meeting will be sent to all MLAs to forward to their constituents as well.

As you know, the educational video is in place to be shown at the public meeting and will take the place of the historical information previously delivered by the committee members. The video will be followed by presentations from Treasury Board and Finance, providing a financial summary and current status update, and AIMCo, offering their usual market updates.

Gentlemen, please work with the committee staff to ensure that they receive these slides by no later than Monday the 23rd so that we can use this information for transmittal for the Shaw TV production.

Now, regarding the video, I've met with the communications folks, and we've sent out links to the drafts of the videos a number of times so that we can ask for your feedback. I'm happy to tell you that we have received some feedback. In one of my favourite parts of the video, the historical context, it was noted to us that one of the opposition parties was not represented in the clip, so we're making that amendment and making sure that all representations from opposition parties are mentioned.

There was also a mention of the clip from Premier Lougheed, and some concerns were raised about the clip. In my mind, Premier Lougheed, as we all know, is accepted as the father of the Alberta heritage savings trust fund. I think that in the historical context not having a clip from Premier Lougheed would not help our message, so I've respectfully declined that feedback.

At this time I would also like to remind you of the decision to hold a short coffee reception following the public meeting, which I'm hoping members and representatives from both Treasury Board and Finance and AIMCo will attend, the idea being that we want to attract some people. The thought is that we want to have more of a public engagement piece and build upon the success of

last year and keep building as we strengthen this meeting and try to get more people out. Of course, the feeling is that if we have more people at the meeting, in the seats, in person, it will make the television broadcast that much more vibrant and that much more engaging. Over the next few weeks we'll send you updated information about the public meeting arrangements. As this is just an information item, we don't need to have a motion presented.

The second component is our Alberta heritage savings trust fund public website, our update on the website hits. We've all been sent a memo outlining the status of the website hits from June to August 2013. Does anyone have any questions for the Alberta Treasury Board and Finance communication team as we move forward in preparation for our meeting? Mr. Eggen.

Mr. Eggen: Thank you. Well, it's less of a question. I apologize for not watching the video till later, but I thought it was really well done. It was well put together, and I think it's an improvement on last year for sure. You know, if I can think of one change that we could make in the television part from last year, it's that we kind of dragged out the questions from the audience and the phone-in questions. We didn't have enough volume, and so we ended up with some guy calling in several times. I don't think that presented that well. If we can think about that, it would be helpful.

The Chair: Mr. Eggen, thank you very much for those comments. I see Ms Sales nodding her head in agreement. Thank you very much. Thank you also for the acknowledgement of the video. I for one was very impressed with the video, and I know that the communications team put hours and hours of work into those seven minutes. Thank you on behalf of the committee to the communications team.

I see a question also from Ms Kubinec.

Ms Kubinec: Yes. Thank you, Mr. Chair. Again, I would agree with my colleague that it was very well done, and I thought it was an excellent job. Thank you and kudos to our communications people.

Also, just maybe a suggestion on that. Perhaps we could send out something that encouraged people to put written questions in ahead of time that we could then address at some point when there's a lull in the meeting. Again, we're trying to coax questions out; if we had given an opportunity for people to send in questions – this is a suggestion.

1:20

The Chair: Excellent points. Thank you, Ms Kubinec.

You know, the communications staff has done an excellent job of providing our committee members and all members with these little pamphlets, and I would strongly encourage everybody in this room who sits on the committee to engage your constituents and have them come to our meeting with some good questions so that we can get full value for our meeting.

It's also been pointed out to me that we're under no obligation to run the meeting for the full two hours, so in this case we'll make sure that we don't have to fill in time, and the meeting will

sort of run its course. I'm looking forward to a very engaged evening with lots of good questions.

We have a question and a comment from Dr. Sherman.

Dr. Sherman: Mr. Chair, just a question. We're speeding right along here. I just want some clarification on the responsibilities of the committee. We used to have the responsibility of the business plan, which in the recent legislation has effectively been removed. We had the ability to review and approve the business plan of the heritage fund stripped from the committee, and any effective oversight role of the committee that the committee could have has been removed. Would that be correct?

The Chair: That is correct.

Dr. Sherman: Okay. The responsibility of the committee is to report to the Speaker and

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 [has been] fulfilled.

The question: does this report fulfill the mission?

The Chair: Dr. Sherman, which report are you referring to?

Dr. Sherman: Just the quarterly report.

The Chair: The quarterly report.

Dr. Sherman: Or the annual report. Does it fulfill the mission of the heritage fund?

The Chair: Dr. Sherman, as our responsibility is to report on the Alberta heritage savings fund to the public, I would believe that, yes, it does fulfill the mission of our standing committee.

Dr. Sherman: Thank you.

The Chair: Thank you.

Are there any more questions?

With that, we're speeding right along here. Thank you very much. We'll move on to item 7, other business. You have received the minutes of the responses from the President of Treasury Board and Finance from the June 20, 2013, meeting. Does anyone have any questions on this information?

Excellent. Seeing none again, we'll move forward to item 8, which is the date of our next meeting. As discussed, the next meeting is the public meeting, which is scheduled for October 2, 2013, after which we will meet in December, following the release of the second-quarter report on the fund. Are there any questions or comments?

I do want to thank you all very much. We have a couple of committee members who, unfortunately, have to attend a funeral, so I was trying to step on the accelerator as we moved through this meeting to accommodate those gentlemen. Thank you kindly. Thank you to everybody who has attended.

May I have a motion for adjournment? Moved by Mr. Eggen that the meeting be adjourned.

Thank you all very much.

[The committee adjourned at 1:24 p.m.]

