



Legislative Assembly of Alberta

The 29th Legislature
Second Session

Standing Committee
on the
Alberta Heritage Savings Trust Fund

Monday, June 20, 2016
2 p.m.

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

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Schreiner, Kim, Red Deer-North (ND), Deputy Chair

Cyr, Scott J., Bonnyville-Cold Lake (W)
Dach, Lorne, Edmonton-McClung (ND)*
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McKittrick, Annie, Sherwood Park (ND)
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* substitution for Bob Turner

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Standing Committee on the Alberta Heritage Savings Trust Fund

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Aaron Brown, Director, Portfolio Management, Capital Markets

Lowell Epp, Assistant Deputy Minister, Treasury and Risk Management

Stephen J. Thompson, Executive Director, Capital Markets

Alberta Investment Management Corporation

Dale MacMaster, Chief Investment Officer

Kevin Uebelein, Chief Executive Officer

2 p.m.

Monday, June 20, 2016

[Mr. Coolahan in the chair]

The Chair: Okay. Good afternoon. I'd like to call this meeting of the Standing Committee on the Alberta Heritage Savings Trust Fund to order.

My name is Craig Coolahan. I'm the MLA for Calgary-Klein and chair of this committee. I'd like to go around the table now and ask everyone to introduce themselves, starting on my right with the deputy chair.

Mrs. Schreiner: Hi. Kim Schreiner, MLA for Red Deer-North.

Ms LeBlanc: Stephanie LeBlanc, Parliamentary Counsel with the Legislative Assembly Office.

Ms Dotimas: Jeanette Dotimas, LAO communications.

Mr. Uebelein: Kevin Uebelein, AIMCo.

Mr. MacMaster: Dale MacMaster, AIMCo.

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

Mr. Thompson: Steve Thompson, Treasury Board and Finance.

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

Mr. Brown: Aaron Brown, Treasury Board and Finance.

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Mr. Ireland: Brad Ireland, office of the Auditor General.

Mr. Robe-From: Nelson Robe-From with the office of the Auditor General.

Mr. Dang: Thomas Dang, MLA for Edmonton-South West.

Mr. Dach: Lorne Dach, MLA, Edmonton-McClung, substituting for MLA Robert Turner, Edmonton-Whitemud.

Mr. Horne: Trevor Horne, MLA, Spruce Grove-St. Albert.

Ms McKittrick: Annie McKittrick, MLA, Sherwood Park.

Mr. Roth: Aaron Roth, committee clerk.

The Chair: Can I ask who's on the phone?

Mr. Gill: Yeah. Prab Gill, Calgary-Greenway.

Mr. Cyr: Scott Cyr, MLA, Bonnyville-Cold Lake.

The Chair: Is that all? Okay. Thank you.

For the record Mr. Dach, as he noted, is substituting for Dr. Turner, Mr. MacIntyre, should he join us by teleconference, is substituting for Mr. Taylor, and Mr. Gill is substituting for Mr. Ellis as per Standing Order 56(2.1) to (2.4).

A couple of operational items. The microphone consoles are operated by *Hansard* staff, so there's no need to try to operate them yourselves. Please keep cellphones off the table and muted as these may interfere with the audiofeed. Audio of committee proceedings is streamed live on the Internet and recorded by *Hansard*. Audio access and meeting transcripts are obtained via the Legislative Assembly website.

Now we have Mr. MacIntyre.

First order of business. Would a member like to move that the agenda for the June 20, 2016, meeting of the Standing Committee on the Alberta Heritage Savings Trust Fund be adopted as circulated? Ms McKittrick. All in favour? On the phone? Any objections? That motion is carried.

We'll move to approval of meeting minutes. Would a member like to move that the minutes for the March 2, 2016, meeting of the Standing Committee on the Alberta Heritage Savings Trust Fund be adopted as circulated? Mr. Dang. All in favour? On the phone? Any objections? That motion is carried.

We'll move to the Alberta heritage savings trust fund draft annual report. Hon. members, the draft 2015-2016 annual report of the Alberta heritage savings trust fund was posted on the internal website on Wednesday, June 15. Members are reminded that this draft report is confidential and that, once approved by the committee, final copies will be printed by Treasury Board and Finance, and copies will be distributed to all MLAs by the chair. The annual report must be approved by the committee and distributed to all members by June 30. I would ask that Mr. Epp, Mr. Uebelein, and Mr. MacMaster give us a review of the annual report, please.

Mr. Epp: Thank you, Mr. Chair, and good afternoon. I'm certainly pleased to be here. I bring the regrets of the Minister of Treasury Board and Finance and the deputy minister. They are in Vancouver attending the finance ministers' meeting and unable to attend today.

As the chair stated, we are here today to discuss the 2015-16 annual report of the Alberta heritage savings trust fund and seek this committee's approval of the report, as required in the heritage fund act. I would note that within the report the minister's message, along with the rest but in particular the minister's message, is in draft form and may change before publication.

I will spend a few minutes, not a lot of time but a few minutes, going over some of the highlights of the report. You've all had access to it, and we certainly welcome, after our initial remarks have been completed, taking questions.

Just to go over a few of the highlights, as you know, the legislated objective for the heritage fund is to maximize the long-term investment returns for the fund with a prudent level of risk. While we publish annual reports, it's not necessarily the best period of time over which to review or assess performance, so I will focus on the last five years primarily. Over the past five years the heritage fund has earned an annualized return of 10 and a half per cent. This seems like a pretty good rate of return, particularly given what your bank or your credit union is probably paying you these days on a savings account, but does it measure up?

We measure how the heritage fund has done based on two things. We look at a general return objective, which we define as inflation plus 4 and a half per cent, as a return that we expect that the fund can return over a long period of time. In our ministry's – that's Treasury Board and Finance – annual report this is one of our performance measures. Does the heritage fund earn this over time?

The second performance measure, which is also in the ministry's annual report and business plan, is that our investment manager, AIMCo, should add 100 basis points of value-added.

These measures are best evaluated over a long period of time. Over a short period of time investment markets can be very volatile, and looking at shorter periods of time can lead to different decisions and often worse decisions for the long term.

So how did the heritage fund do? Well, 10 and a half per cent beats both measures, I'm pleased to say. This won't always be the case. There have been extended periods of time in history like the '70s, where equity markets basically earned a very low return for

the entire decade, but over the last five years the heritage fund has produced a return well above our two measures.

Our first measure, inflation plus 4 and a half per cent: well, inflation has averaged 1 and a half per cent over the last five years, making that target 6 per cent, so 10 and a half certainly exceeds that target.

AIMCo has also added value to the fund. Over the past five years our benchmark return, an estimate of what returns would have been if it hadn't been actively managed by AIMCo or anyone else, averaged 9.2 per cent annually. So 10 and a half is clearly well above our benchmark return of 9.2 per cent, a benchmark exceeded by 1.3 per cent, or 30 basis points, .3 per cent, above our target for AIMCo.

Now, if we look at the past year, you see a slightly different picture. The fund earned a return of 4.7 per cent while the benchmark earned a return of .4 per cent. Last year inflation was about 1.4 per cent, so our long-term target measured over a short-term period was 5.9 per cent. So we underperformed for the year, but again we don't evaluate on that measure. We know we're not going to beat this measure every year, which is why focusing on one year alone is too narrow.

I will say that AIMCo had an excellent year. They outperformed the fund's benchmark by 4.3 per cent. A passively invested fund would have earned a return of .4 per cent last year according to the benchmarks that we have set out, or virtually nothing. So AIMCo turned virtually nothing into something, adding 4.3 and making the return 4.7 per cent.

2:10

The fund earned a little more than \$1.2 billion during the year, of which \$209 million was retained in the fund, as per the heritage fund act, for inflation-proofing, with the remaining approximately \$1 billion transferred to the general revenue fund to be expended on government priorities. Over the past five years the fund has transferred \$5.9 billion in income to general revenues while \$1.2 billion in earnings was retained in the fund for inflation-proofing.

One last thing that I will discuss before turning it over to AIMCo. The one new thing that we had this year was the introduction of the Alberta growth mandate. In Budget 2015 Minister Ceci announced that 3 per cent of the heritage fund would be allocated "to directly invest in Alberta's growth." Working with AIMCo, we have established some principles for those investments, that are shown on page 8 of the annual report.

Since the announcement in October 2015 AIMCo has already made three investments, two during the fiscal year and one that was more recently announced. More importantly, however, AIMCo has allocated more resources and is looking at more potential investments in Alberta than they had previously. With more time spent and more energy focused and more resources put to the task, we expect that additional investments that fit into this mandate and also meet the heritage fund's legislated requirement to maximize long-term investment returns will be made in the future. We will of course continue to provide the committee clerk with periodic reporting regarding these investments as progress is made.

That concludes my remarks. Thank you, Mr. Chair.

The Chair: Thank you, Mr. Epp.

Mr. MacMaster: Thanks, Lowell. Perhaps I'll just add a few comments to what Lowell has told you about the performance.

I'd like to say a couple of things. First of all, the one-year return of 4.7 per cent is a little unusual in a couple of regards. Number one, if you look at the five-year return of 10.2 per cent, it's substantially higher, and it reflects, you know, one of the issues that

we're facing in the market today, which is probably, looking out in the next few years, a lower rate of return for investment assets. One of the reasons is the low rates of interest on fixed incomes. For instance, 10-year bonds in Canada now yield 1 per cent. Stock markets have also enjoyed a considerable bull market rally, and we should expect corrections to occur from time to time. So our forward-looking outlook on investments is cautionary, I would say.

The second thing that's a little bit unusual is the roughly 4.3 per cent over and above the benchmark that AIMCo delivered over the past year. That's somewhat unusual as well. We would consider that, you know, a good year would be 50 to 100 basis points or slightly more than that in any given year. To add over 400 basis points is somewhat unusual, and we shouldn't expect that very often although we're very pleased with it.

The other aspect of that, which we're very pleased with as well, of course, is that if you look on page 13 of the heritage fund report, virtually every asset class that we manage outperformed its benchmark: fixed income, equities, the illiquid assets. All of the assets outperformed their benchmark, and that's a little bit unusual. In a balanced portfolio we would expect some things to work in any given year and other things to lag.

Again, we are focused on the long term. As Lowell pointed out, one-year returns can vary quite a bit. We've all seen stock market corrections of 40 or 50 per cent or more, but over the longer term, five and 10 years, AIMCo would expect to deliver value. I think you can see from the tables in the annual report that indeed we've been able to achieve that.

In terms of the environment maybe I'll just make a couple of comments. Over the past year it has been a very challenging investment environment. We've got concerns in the marketplace around the low level of global growth. China is slowing. We've seen a collapse in commodity prices and more recently in oil prices, which are very near and dear to Albertans, of course. We've also got concerns around the move to higher interest rates in the U.S., and that's created quite a bit of volatility in the stock markets. More recently we've seen concerns around Brazil and the potential for the U.K. to exit the European monetary union, which has created volatility.

All this is to say that the sentiment in the market is worried. There is a lot of money that's moved into cash and bonds more recently, and that's created volatility in the marketplace. For us as long-term investors this type of volatility gives us the opportunity to buy high-quality assets at attractive prices, so that's what we'll continue to do for the fund.

Perhaps, with that, I'll take any questions unless Kevin has anything to add.

Mr. Uebelein: No. Mr. Chairman, I have no prepared remarks, and along with Dale and Mr. Epp I'm happy to answer any questions.

The Chair: Okay. Thank you, gentlemen.

I will take a couple of questions from the table here, and then we'll go to the phone if that's all right. Any questions? Mr. Dach.

Mr. Dach: Yes. Thank you, Chair. I listened with interest, it being my first time to sub in this committee. I quite appreciated the information about the fund doing so well in troubling times. During Budget 2015 the Minister of Finance directed AIMCo to establish an Alberta growth mandate that would see up to 3 per cent of the heritage fund invested in Alberta companies with strong growth potential, as was mentioned in reports. The minister also directed that investment professionals, not politicians, would direct those investments. Now, on page 8 of the annual report it outlines the Alberta growth mandate and includes for the public the guiding

principles, or the investment screen, for this mandate. Can the officials briefly describe how this investment screen was developed?

Mr. Epp: We had extensive discussions with AIMCo on balancing two mandates. One was the legislative mandate for the heritage fund to maximize investment returns, and the other was the mandate given by the minister to allocate up to 3 per cent. Either one is a lot easier to do without the other, but when combined, it presents a challenge. We did not want to be overly restrictive in our mandate, so we did not say that it had to be equities or it had to be a certain type of company because while Alberta has a good, vibrant economy, it's certainly not as large as the world economy. So we are necessarily, when we look at this, limiting the investment universe where AIMCo can add value or make good investment returns. Therefore, we tried to keep the mandate as broad as possible, primarily so we didn't restrict AIMCo's ability to place investments in Alberta. We didn't want to become overly definitional. It was a give-and-take between department officials and AIMCo officials, working together at all levels to try to come up with something that we felt met both mandates, to maximize returns and to meet the minister's instructions.

Mr. Dach: A bit of a tightrope. Thank you.
I'll cede to Mr. Dang.

The Chair: Mr. Dang.

Mr. Dang: Thanks. Again, on page 8 the report outlines that AIMCo has done significant due diligence as a process to ensure that investments and the mandate are aligned with the investment screen while also meeting the legislative mandate of a fund, which is to maximize the long-term returns at prudent levels of risk. There have been two large investments to date under the mandate, one in TransAlta Renewables and another in Calfrac Well Services. Can the officials please explain how they go about doing due diligence on these investment opportunities? In consideration of the Alberta growth mandate, without going into any specifics on individual potential deals, how many investment opportunities have been considered by AIMCo for the Alberta growth mandate?

2:20

Mr. MacMaster: Since the mandate was implemented, since the policy was initiated, we've looked at well over 30 opportunities, and we've completed three transactions. First and foremost, our objective is mandated by law for total return. We're looking globally for the best risk-adjusted returns for the fund, and it happens to be that over the past number of years – and this exists today – Alberta is a very good place to invest. We have been able to make three investments that satisfy our criteria, first and foremost – and I want to emphasize this – at the best risk-adjusted return. The reality is that in today's world it's been challenging with the collapse in commodity prices and oil prices, that I spoke of earlier. As a result of that, capital sometimes pulls away, but again this gives us opportunities to come in and buy very attractive assets at attractive prices. It satisfies all of the criteria on this mandate for return and, I think, benefits Alberta, and we've done that for many, many years.

In terms of our due diligence it's exhaustive and it's extensive. In terms of TransAlta Renewables, we've been dealing with TransAlta for many, many years on potential transactions. Obviously, a manager like ourselves is very cautious and thorough, and the price just was never right for us to strike a deal, again getting back to the risk-adjusted return. But with TransAlta Renewables everything did come together and clicked, and we did a fabulous

transaction. I think that today that particular transaction is up probably 25 or 30 per cent from where we executed on it in an area of the market that we find very attractive and beneficial from an ESG point of view in the renewables space here in Alberta. I mean, it's terrific for us. In terms of our due diligence it's lengthy. There's a laundry list of things we have to look at in terms of understanding management and thoroughly checking the assets and looking at all the opportunities that we see across that space.

Mr. Dang: Thank you.

The Chair: Does anyone on the phone have questions for Treasury Board or AIMCo?

Mr. MacIntyre: Yes. I have a couple of questions.

The Chair: Okay. Proceed, please.

Mr. MacIntyre: Thank you. Regarding the investments in Calfrac Well Services – it's located on page 8 – in the guiding principles there are six here:

- (a) Creates jobs in Alberta
- (b) Builds new infrastructure in Alberta
- (c) Diversifies Alberta's economy
- (d) Supports Alberta's growth
- (e) Connects Alberta's companies to export markets
- (f) Develops subject matter expertise within Alberta

In the deliberations that AIMCo would have gone through regarding their investment in Calfrac, I guess my question is: how are we doing? Calfrac happens to be a neighbour of mine, and they don't look like they're doing all that well. Can AIMCo give us a current status report on the health of that particular investment?

Mr. Uebelein: I want to address your question first maybe a little more generally, and then if Dale has a flash report on Calfrac, I'll pass the baton to him. Bearing in mind that our investment at Calfrac is only a few weeks old, there won't be much change since we closed on that transaction. I think an investment like Calfrac is another example of what Dale was alluding to or mentioning earlier, months of diligence and then more months of structuring, including going to our investment committee, having an exhaustive investment committee conversation that resulted in not approval but a message to our deal team: go back and keep working on it; it's not fully cooked yet. It just underscores the level of scrutiny and attention that these transactions bring.

The thesis that leads us to believe that this is absolutely smack dab in the middle of this growth mandate is that companies like Calfrac, which have leading-edge technology and a chance to be a market leader not just in Alberta but on a global basis in their niche industry, need to have strong capital, strong balance sheets as and when this industry recovers, as the oil price recovers. If they have that kind of strong backing and if AIMCo can benefit from a well-priced investment at the same time, then it's a true win-win for AIMCo and its clients, for Alberta, and for Calfrac. What we're hoping to achieve is a well-capitalized company that can take advantage of winning market share on the back end of this cycle.

Mr. MacIntyre: Yeah. I understand that. I've seen Calfrac stock pricing go from a high of \$21.50 to I think they closed out at around three bucks or \$3.28. It is a good time to invest in a company if you believe that they're going to be stronger later. In the deliberations that AIMCo goes through and these six guiding principles, does AIMCo provide your department with a justification for each one of these six guiding principles when they are looking at an investment? Do they simply do that in-house and provide you with,

say, a final report saying that we think Calfrac or whoever meets all six of these, or do they actually give you a report justifying all six?

Mr. Epp: They do not seek our approval. They make independent investment decisions. We've set out the mandate as the minister has set it out and as agreed upon. I would point out that the investment, this or any other one, doesn't have to meet all six of the criteria – I'm not sure that that would be possible in most cases – but has to meet some of the criteria. Clearly, this is a company that meets – you know, when I do a quick look at the criteria, it certainly has subject matter expertise. It's a leading company world-wide in the industry in which it operates, so it certainly meets that one. It may not create but may maintain jobs in Alberta. Again, those are inclusion criteria that passed the screen first, but those aren't the final investment decision criteria. AIMCo makes its investment decisions independent of the department, so to get any sort of prescreening from us or postscreening would remove that independence, and we're simply not willing to go there.

Mr. MacIntyre: I understand that. I realize that they need to be maintaining an arm's length from the department. But given that the government has given them a mandate with these six guiding principles, is there any accountability back to you and thereby to the people of Alberta that indeed AIMCo's investments are following these six guidelines? Is there some justification back to us after they've made their decision that, yeah, they're following these guidelines?

The Chair: If you can just answer that, Mr. Epp, and then we'll end the line of questioning.

Mr. Epp: They provide frequent reporting, and we've made all of their investments public. That's the best kind of accountability we believe there is. This is not different than any other mandate that AIMCo operates under. They're given mandates by their clients, whether it be the heritage fund or pension clients, to invest in certain areas or meet certain criteria. We certainly don't see this as a whole lot different than many of the other activities that they serve. Of course, reporting to this committee and being here willing and able to answer questions is part of that transparency as well.

Mr. MacIntyre: If I may, can we turn to bonds for . . .

The Chair: Mr. MacIntyre, I'll come back to the phone. We're going to take a question from the table now.

Mr. Horne.

Mr. Horne: Thank you. My question is a little bit related to one of Mr. MacIntyre's, but I believe it's sufficiently different that it will hopefully get at something a bit different. At the previous meeting of this committee AIMCo officials identified four issues of fairness. Investment opportunities made under the Alberta growth mandate for the heritage fund also had to be available to other funds managed by AIMCo; for example, the local authorities pension plan or the public service pension plan. This is certainly a reasonable approach, and that explains why the net value of the investments towards the Alberta growth mandate is roughly \$48 million. Can the officials inform the standing committee of the value of the two investments made in TransAlta and in Calfrac across all investment funds managed by AIMCo?

2:30

Mr. MacMaster: The Calfrac investment – I'll start with that one because my memory is more fresh – was a \$200 million second-lien debt transaction. The heritage fund participated to the tune of \$40 million, which is how we would normally allocate, you know,

according to our fairness rules. In total now we have \$88 million invested with this policy. There was a \$2 million Calfrac equity transaction prior to this, and then there was the TransAlta Renewables.

Mr. Uebelein: Yeah. That's the \$230 million on a gross basis. I believe that's the number. If my memory isn't serving me accurately, we can get back to this committee with details.

Again, on a more macro basis, I just would like to say that this fairness issue is not a constraint. It's actually a multiplier impact that should be viewed as a strong positive. I'm very much encouraged. As a consequence of the conversation that the heritage fund started with us on the Alberta growth mandate, a few things have been accomplished. One is a greater attention and awareness of the opportunities or the potential need for capital investment in Alberta for certain types of companies. This is driven deal flow. So we are seeing more potential opportunities than we would have had if we hadn't had this conversation. We have additional resources internally to look at those transactions.

Then, even though this may be a rounding error, we're actually taking a much more proactive stance at what I would call directing traffic around those deal opportunities. What that means specifically is that we may look at 30 or 40 potential transactions, do due diligence on 10 or 12 of them, and only then make one investment. The other 39 that we look at and don't do: we're taking additional attention to sort of help them direct traffic. Where else might they access capital that's more suitable for their particular situation?

All of these things are hard to quantify but very real benefits of the conversation that the heritage fund and AIMCo have had. Then if you add on top of that the multiplier effect, out of fairness our other clients want exposure to these investments as well.

The Chair: Okay. Thank you.

Mr. Cyr on the phone, do you have any questions?

Mr. Cyr: Yes, I do. I would like to ask about the bonds. I'd like to continue on with Mr. MacIntyre's line of thinking. Does the fund have currently any bond holdings yielding negative interest rates? If so, what is the holding, and why did you buy it? I'd like to specifically reference page 16.

Mr. MacMaster: I'll take that question. To my knowledge there are no bonds that are yielding a negative return. The trend to negative interest rates has been primarily outside of North America. Also, the bond holdings that the heritage fund has are North American based. The yield curve is still above zero here, as it is in the U.S.

So there is nothing yielding a negative return to my knowledge. I think we'd be hard-pressed, you know, to purchase a bond with a negative return. It's an unusual phenomenon.

Mr. Cyr: What is the value that the Alberta government is holding in bonds at this time?

Mr. MacMaster: If you turn to page 12, the table at the bottom of the page has a breakdown of the asset mix. Fixed income and money market, March 2016, was 18.7 per cent. So on a fund of \$17.7 billion, whatever that math is would give you the holdings.

Mr. Cyr: Okay. Is any of this Alberta government bonds?

That will be the last question, Chair; I apologize.

Mr. MacMaster: Yes, we do own Alberta bonds – we do – and as Alberta steps up its issuance, you know, we would buy some.

Mr. Cyr: What's the number on the amount that we hold for Alberta bonds?

Mr. MacMaster: There is a table in here, I think. If you turn to page 19, there's a table in the middle of the page with Alberta exposure, fixed income of \$204.7 million out of total Alberta holdings of \$1.7 billion, which I think represents about 9.7 per cent of the portfolio.

Mr. Uebelein: Our total fixed income and money market exposure is \$3.4 billion out of the almost \$18 billion. That is that 19 per cent that Dale referenced earlier.

Mr. Epp: One point of clarification. The \$204 million invested in fixed income in Alberta on page 19 is invested in bonds of various companies and so on and so forth. That is not government of Alberta, just to make sure we're clear.

The Chair: Thank you, Mr. Cyr.
Let me go to the table.

Ms McKittrick: Thank you for the presentations, and thanks for the work that you've done in the past year. I think we all know the challenges of investment and the changing political reality worldwide and what has been happening, so I really wanted to thank you for what you've done.

I wanted to take a few moments to dig deeper on the issue of risks and how the fund is managed to ensure that AIMCo continues to beat the benchmark over the long term. As the report identifies, fiscal year 2015-2016 was a challenging year in the markets. Despite this, the fund exceeded the overall benchmark of 4.3 per cent.

When I look at the headlines, fiscal year 2016-2017 also looks to be very challenging. By way of example, we've really seen returns on the German 10-year bonds, the European benchmark, fall into negative territory. In the next few days Great Britain will make an important decision in terms of the Brexit decision, on removing themselves from the European Union. I know that this will have an effect on the European global markets with the uncertainty of that decision and the impact for both Great Britain and the rest of Europe.

In this context of risk and global uncertainty how is the fund being managed to mitigate these challenges and to ensure that we continue to deliver value for Albertans? I also note on page 19 that the fund has significantly reduced its exposure to both the euro and the British pound year after year. Can you provide some context on how they manage currency exposure and risk in order to provide long-term investment to the fund? So, really, two questions. How are you managing risk over political events like in Europe with their Brexit decision? And, you know, why are you removing yourself from the euro and the British pound?

2:40

Mr. MacMaster: It sounded like there were more questions in there than two, but I'll try the two.

Ms McKittrick: There might be another one.

Mr. Uebelein: I'll start again with a macro answer and then invite Dale to dig into perhaps more detail. There is no short answer to your very good question, but it starts with an acknowledgement that the only way we have any hope of achieving this 1 per cent outperformance is by taking risk, by taking active risk outside of the benchmark. By definition, if we hug the benchmark, we cannot overperform. What's also important to understand is that by hugging the benchmark, it's much less likely that we will underperform. So in periods of extreme volatility without, in our

minds, clear signals as to which active risks we ought to be taking to get paid adequately for those risks, we will contract our active risk position and become closer to the benchmark.

To be fair, the turmoil, particularly during portions of the first quarter of this calendar year, the fourth quarter of this fiscal year for the heritage fund, was just such a period, where we saw spikes in volatility from sources without absolute clear signals that would lead us to wanting to take active bets in such a volatile environment. Some of what you're seeing at the end of that first-quarter calendar, the fourth-quarter fiscal – March 31 is the end of your fiscal year but the first quarter of the calendar – is just such a period, where we were bringing our risk positions in for a bumpy ride. Then as we see clearer signals, we will push those active risk levels back out because we have to or we will not be able to achieve the goals set out for the heritage fund.

Mr. MacMaster: I'll take another approach. If you look at your asset mix table on page 12, that might help with the discussion a little bit. There are really two types of risk. There's total risk, and there's what I'll call active risk. The heritage fund in conjunction with our colleagues in Finance has developed an asset mix policy which consists of stocks and bonds and illiquid assets, so you have decided that this is an appropriate mix for a long-term endowment fund. That's where the bulk of your risk is coming from, that asset mix. Most of your risk, most of your total risk, is coming from the asset mix that you've chosen.

What AIMCo does is tilt the portfolio in small ways, and we call this active risk. When we deviate from the model portfolio, that's our active risk. That's AIMCO making small bets in an attempt to add value. If we look at the last year, I would say that we were really successful in adding value because we really took very little active risk. We consider ourselves at AIMCo as risk managers, so we look at measures like – I don't want to complicate things – something called information ratio, which is really: how much active return, return over the benchmark, can you deliver for a unit of active risk?

What has happened in the last couple of years is that we've actually been punching above our weight class a little bit in that we're adding more value given the amount of active risk we're taking, okay? So we're very efficient on that, and that's important. When you look at how AIMCo has performed, I think it's fair to say that over the longer term, five and 10 years, we are a top-quartile manager, but we are also top quartile in terms of low cost and top quartile in terms of our efficient use of risk. That's an important concept.

Now the currency question. The currency weights that you have, the currency exposures that you have, largely come about, again, because of your asset mix. If you've decided to have, you know, global equities and global infrastructure, then you'll have some exposure to those currencies. Again, AIMCo will tilt the portfolio, tilt the balance of currencies, but only to a small degree. In fact, we don't think adding value in currencies is a great way to add value. We're much more confident in our ability to add value through security selection across thousands and thousands and thousands of decisions rather than in currency. The currencies you see here in the table are largely a reflection of your asset mix.

The Chair: Okay. Thank you.

In the interest of time – we have a couple of items on the agenda that we still need to discuss – I'll take one more question off the phone and one more off the table, quick ones, please. Anyone on the phone? Okay. There doesn't seem to be anyone on the phone with a question.

Mrs. Schreiner.

Mrs. Schreiner: Thank you. With the fund performing well right now, I'm wondering if the officials that are here today might offer their thoughts on the big investment challenges and opportunities that might exist over the long term, say, in the next four, six, or eight years. Over this long-term time horizon are there any actions that government, the department, or AIMCo should begin to consider that might help us manage those challenges and opportunities?

Mr. MacMaster: That's a tough question. We are in a challenging environment, and we're challenged by, I think – well, probably the biggest conundrum facing investors today is the fact that rates are so unusually low. The great conundrum is the fact that eight years after the credit crisis we're still struggling to get good growth in the world economy. Interest rates are low; inflation is low; growth is unsatisfactory. Why is that? It's really, I think, confounding economists to explain it. More importantly, how do we emerge from this? How do we normalize interest rates? When will growth come? Is there something unusual happening in the global economy that causes this to occur? There are some theories: demographics, technology, our measurement of productivity. There are a number of reasons, but that to me is the single biggest challenge for investors today.

The fact that rates are low means that your fixed-income returns are apt to be low. Canadian bond rates in Canada, 10-year bonds, are at 1 per cent today, so if I buy a 10-year bond, I know I'm going to get 1 per cent nominal return. That doesn't even consider the effects of inflation and taxation and so on. It's really a low return, so that aspect of your portfolio is going to deliver a low result.

The other aspect is that the fact that we have low rates has encouraged investors to take more risk right across the spectrum, whether it's, you know, mom and pop buying a second and third house for investment or investors taking on more risk in equity portfolios and buying illiquid assets and so on. So there's a type of potential moral hazard at work.

In fact, we see in Canada, for instance, lots of concern around the housing market, where low interest rates, in part, have created some speculation in places like Toronto and Vancouver, and we see, you know, housing prices rapidly expanding, active speculation, even probably some unethical behaviours. The OECD, the International Monetary Fund, the C.D. Howe, the Bank of Canada have all come out and commented on this for the last several years.

This is the landscape that we have, a low interest rate environment encouraging investors to take more risk. How do we deal with that? Well, on the one hand, you know, we're challenged. To a certain extent, we take what the market gives us. We have an asset mix that we're investing in, equities and bonds, so we're at the mercy, to a certain extent, of the markets.

What are we doing at AIMCo today to try and alleviate that? We continue to add new strategies in every single asset class, whether it's real estate, going into foreign development opportunities; whether it's in equities, developing new quantitative strategies and what we call portable alpha strategies, adding some leverage to strategies we know have added value over the last number of years; infrastructure is now moving in; agriculture. Every single asset class is very much hard at work looking for opportunities. Sometimes for investors it's about rolling up the sleeves and working that much harder, you know, to turn over that investment.

The other thing I would add – and it dovetails, I think, nicely with the new mandate – is that, you know, the world is a volatile place. The world moves in cycles, and one of the cycles we've seen over the last couple of years is the drop-off in commodity prices, in particular oil. Well, that's scared a lot of capital away – hasn't it? – but it provides an opportunity for AIMCo to step in where asset

prices are depressed and make high-quality investments in deeply discounted assets. So that's what we'll continue to do. What we bring to the table is certainty of assets, so we can be long term. We know the assets are here, we have economies of scale, and we have the expertise and patience and discipline to execute on our mandate.

2:50

The Chair: Great. Thank you.

I would like to bring the question-and-answer portion of the report to a close, and I'd like to commend the officials from Treasury Board and Finance and AIMCo for their fine work in developing and refining the statement of investment policies and guidelines and, of course, implementing them. As the numbers indicate, over the long term you have done real service for Albertans, and it certainly is a good-news report. I'm certain that all members of this committee will agree that the mission of the fund is more than being fulfilled, and I have no doubt that we will transmit back to the Legislature and to all Albertans.

Would a member like to move that

the Standing Committee on the Alberta Heritage Savings Trust Fund approve the 2015-2016 Alberta heritage savings trust fund annual report as circulated.

Mr. Dach. All in favour? On the phone? Any objections? Hearing none, the motion is carried.

Guests, you are free to leave now. We are discussing the public meeting coming up, and I know you'll be involved in that, so you are welcome to stay as well or make an escape, whichever you like. Again, thank you for coming.

Okay. We'll carry on. Members, as you know, under the Alberta Heritage Savings Trust Fund Act this committee is required to hold a public meeting informing Albertans of the status of the fund. Usually this meeting is held in October prior to the fall legislative session although this does not have to be the case. For the past six years the committee has chosen to have the public meeting broadcast live to Albertans via television. For the past five years the meeting was held in Edmonton, with webcasting and other options for Albertans to participate. In 2015 the committee held the meeting here in this room, which saved substantially on venue and technology expenses.

The committee decided on March 2, 2016, that the 2016 public meeting will be held at the Edmonton Federal building but has not yet determined the date and time of the meeting. Last year's meeting was held on November 26 due to budget estimates, but traditionally, as mentioned, the annual public meeting has been an evening meeting in mid- to late October, before the fall session. As the members of the committee know, the Assembly is scheduled to reconvene on October 31. Therefore, the deputy chair and I would like to recommend that this year's public meeting be held either on Thursday, October 20, from 7 to 9 p.m. or on Thursday, October 27, from 7 to 9 p.m.

Are there any questions or comments about this proposal?

Would anyone like to propose either of those dates?

Mr. Dang: I would move that we meet on the 27th.

The Chair: Okay. I will entertain a motion from Mr. Dang that the Standing Committee on the Alberta Heritage Savings Trust Fund schedule the 2016 public meeting for Thursday, October 27, from 7 p.m. to 9 p.m.

All in favour? On the phone? Any objections? Hearing none, that motion is carried.

The second part of this is the draft communications plan for this public meeting. Hon. members, part of the planning for the public meeting is communicating with Albertans about the event but also inviting their participation in person at the meeting and through

social media. To that end, the common practice is for the Legislative Assembly Office communications staff on behalf of the committee to reach out to Albertans through various media to make them aware of the public meeting. Jeanette Dotimas from the Legislative Assembly Office communications has prepared a draft communications plan for the committee's consideration, which has been posted to the committee's internal website.

I'd like to invite Jeanette to discuss the draft communications plan.

Ms Dotimas: Thank you, Mr. Chair. I guess we've determined that the annual public meeting will take place in this building, in this room, actually, on October 27, so what I'd like to do is to just go through some of the salient points of the communications plan that we've prepared in order for us to support the public meeting and engage Albertans to take part.

One of the committee's functions, as you know, obviously, is to have the public meeting, and the aim is to engage more citizens in discussions about the Alberta heritage savings trust fund and to enable Albertans to gain a deeper understanding as to how the fund's investments and proceeds are managed. During the public meeting the ultimate goal of the committee, of course, will be to present information on how the fund relates to everyday Albertans and how it will affect their future and the future of Alberta's next generation.

The meeting will involve a panel that consists of the committee members as well as officials from Treasury Board and Finance and AIMCo. The format usually is two hours. In this case it's 7 to 9 in the evening. We'll start with introductions, the presentations by AIMCo as well as Treasury Board and Finance, and then we'll move on to the last hour, which will involve Q and A portions. We'll take questions from the live audience, through e-mail, through social media, and through the Legislative Assembly social media accounts.

Some of the recommended strategies that we are seeking to have approved today so that we can move forward in getting these out to Albertans as soon as possible are as follows: sustain efforts to reach a province-wide audience; ensure that the public meeting continues to be engaging; advertising strategies; maximize the use of free promotional opportunities available; there are some additional initiatives; and then measure results following the public meeting.

First, we do recommend once again utilizing live stream and/or a television broadcast of the public meeting to reach as many Albertans across the province.

We'd like to ensure that the meeting components are engaging, so we are recommending that updates be made to the introductory educational video that's shown at the top of the meeting. Basically, some background on this is that in 2013 we produced an introductory video, that was shown during the meeting, that captured the history of the fund. That was updated in subsequent years to accurately describe how the fund might have changed. The use of the video appears to be well received, but of course there are some changes, that need to be updated again. We'll have to do that this year, and we're looking for the committee to approve those costs as well.

We would like to recommend that we invite feedback and questions for the meeting via Twitter, Facebook, and the committee's e-mail as well. In the past communications and the committee clerk have assisted in fielding those questions for the committee and for the officials from AIMCo and Treasury Board as well. During the meeting we do monitor social media to gauge if any of the meeting is being looked at by the public, and if anything is trending on social media, we bring it to the attention of the chair

so that those concerns can be addressed or just brought into the meeting for commentary.

Before the meeting takes place, of course, we'll leverage social media accounts for the Legislative Assembly to get information across to the public. Hopefully, that will garner some interest in the public meeting as well.

The advertising strategy is, of course, the bulk of the cost that we are looking to have approved today. These recommendations are ones that we found to be most effective in the past. We are looking to target our local audience right here in Edmonton by running print ads in publications such as the *Edmonton Journal*, the *Edmonton Sun*, *Metro* Edmonton as well as the *Edmonton Senior* newspaper and local area newspapers, weekly publications such as the *Edmonton Examiner*, possibly *Vue Weekly*. The newspapers for surrounding area communities such as Leduc, Devon, Spruce Grove, Stony Plain, St. Albert, and Fort Saskatchewan will be recommended as well.

Throughout the province we do recommend that we also utilize an advertising strategy because those people can also participate in the public meeting via social media as well as the live stream. Obviously, the *Calgary Herald* and the *Sun*, *Grande Prairie Daily Herald-Tribune*, *Lethbridge Herald*, *Medicine Hat News*, *Red Deer Advocate*, and *Fort McMurray Today*.

3:00

This is something new for this particular committee, but we have had some success in comparable ad campaigns for other Legislative Assembly committees. We would like to recommend that the committee approve the purchase of social media advertising through Facebook and Twitter, Facebook in particular because of the comments feature, that can reach people. Hopefully, it will generate some interest in the fund, and we'll also get some insight in terms of what people are thinking about the fund even if they don't necessarily participate on the day of. We can address some of those concerns perhaps in the public meeting itself.

Radio advertising we would like to recommend as well. We recommend investment in paid radio advertising by airing ads during news programs to target audiences that the committee does want to reach such as those who keep up with local and provincial news, affairs, and politics. We have placed 30-second commercials in certain demographics before throughout the province, in Calgary and Edmonton in particular through 770 AM, 630 CHED, and iNews 880.

The fourth initiative that we'd like to recommend is, again, just taking advantage of free promotional opportunities that are available. We do have a fairly large social media following for the Assembly accounts, so we'd like to leverage those as well as produce an e-card that can be sent through the committee and through other MLAs to support the public meeting.

In terms of paid advertising or paid initiatives, we have the statistics card, that we have produced yearly for the committee meeting. The statistics cards are a relatively inexpensive way to communicate a very succinct, brief background on the fund, including information from the annual report. These can be distributed to the committee members well in advance. We're looking at, hopefully, the first week of September so that there's timely distribution to the constituencies and for any of those who want to attend.

Lastly, of course, we'll measure results following the public meeting. We'll use online statistics to gauge the public's interest and conduct a public meeting survey for those who attended. These measurements will be reported and analyzed in the future in order to assess which strategies provided the most valuable return on investment for the committee.

With that, we're looking at a total estimated cost proposed for the 2016 public meeting of between \$25,700 and \$28,350, which is well below the allotted budget for the promotion of the meeting.

The Chair: Great. Thank you, Ms Dotimas.

Ms Dotimas: Thank you.

The Chair: Are there any comments or questions? Ms McKitrick.

Ms McKitrick: Thank you very much. It looks like a really broad strategy that is going to provide opportunities for younger people and older persons who know about this. I think I asked this question last year, and I'm still interested to see if it would be possible. With Twitter and Facebook and so on, it's hard to know from which part of the province people are asking questions or interacting with us. I'm really interested to make sure that we hear from Albertans from all regions of Alberta. I was just wondering: would it be possible, when people interact on Twitter and Facebook or through e-mails asking questions, if we could find out where they're from and where they're located so that we can judge to see which part of Alberta we may not have reached? I'm really interested in knowing, you know, if they come from rural areas or urban areas, just to really know who's interacting on this.

Ms Dotimas: My short answer is that right now I don't know. Of course, people can obviously indicate somewhere within Alberta, but I don't know if people are specific that way in their own profiles. When we target through advertising, we do target certain areas only. At the very least, we'll know that they're within certain cities perhaps, but we'll have to dig deeper into the insights and the metrics that we do get afterwards in order to get that information for you. We typically ask – and actually in the last meeting people were very quick to give that – the cities that they were contacting us from, so we'll definitely keep track of those.

Ms McKitrick: Yeah. I would really appreciate it. I think that would provide a very interesting perspective for the work of this committee and definitely for AIMCo and the heritage trust fund.

Thank you very much.

Ms Dotimas: Okay. Thanks, Annie.

The Chair: Thank you.

Mrs. Schreiner.

Mrs. Schreiner: Thank you. Just for clarification, I want to ask the total cost for the live web stream and the television broadcast combined. What would the total cost be? Is it the \$6,500 to \$7,000?

Ms Dotimas: Yes.

Mrs. Schreiner: That's combined?

Ms Dotimas: Yes. The live web stream would be a component of the Legislative Assembly Office, but in order for us to get that broadcast, that will come from possibly Shaw, who we used last year. Of course, we don't know if they're available, but there are definitely similar delivery services that provide comparable pricing for that, as we found out in research last year.

Mrs. Schreiner: Thank you.

The Chair: Thank you.

Are there any questions on the phone?

If there are no other questions, then I would ask that a member move a motion that

the Standing Committee on the Alberta Heritage Savings Trust Fund approve the draft communications plan as presented by Legislative Assembly Office communications.

Ms McKitrick. Thank you. All in favour? Any objections? Hearing none, that motion is carried.

I would also like to call for a second motion, that

the Standing Committee on the Alberta Heritage Savings Trust Fund authorize the chair and the deputy chair to approve advertisements and other documents required to hold the public meeting.

Mr. Horne. Thank you. All in favour? Any objections? Hearing none, that motion is carried.

Over the next few weeks we will send you updated information about the public meeting and any arrangements being made. In the meantime I would strongly encourage all members to try to plan to participate in this public forum.

Okay. We will move to other business now. Hon. members, I would just like to indicate for the record that the committee has received responses to two questions asked during the March 2 meeting. One of these was in response to questions asked about the Alberta growth mandate, and the other was regarding P3 bonds in the fixed-income portfolio of the fund. These were posted on the committee's internal website on March 24 and May 13 respectively.

Are there any other items of business to raise today? On the phone?

Hearing none, the next meeting will be scheduled for September, and the committee clerk will poll members for their availability at a later date.

With that said, I would like to call for a motion to adjourn. Mr. Dach. Thank you. Mr. Dach has moved that the meeting be adjourned. All in favour? Any objections? Hearing none, that motion is carried. Meeting adjourned.

Thank you.

[The committee adjourned at 3:09 p.m.]

