Legislative Assembly of Alberta

The 27th Legislature
Second Session

Standing Committee
on the
Alberta Heritage Savings Trust Fund

Annual Public Meeting – Calgary

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Standing Committee on the
Alberta Heritage Savings Trust Fund

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Standing Committee on the
Alberta Heritage Savings Trust Fund

Public Participants

Lloyd Crosby
Dean Giesbrecht
Chris Hooymans
Allan Kettles
Rennie Van Dalen

7 p.m. **Thursday, September 24, 2009**

[Mr. Elniski in the chair]

The Deputy Chair: Good evening, ladies and gentlemen. If you'd make your way into the room, that would be great. Thank you.

Wayne, go ahead, please.

Mr. Cao: Ladies and gentlemen, good evening. I would like to welcome you to the committee meeting today. My name is Wayne Cao. I'm the MLA for the Calgary-Fort constituency and also the Deputy Speaker of the Legislative Assembly of Alberta.

My neighbour colleague Jonathan Denis asked me to be here on his behalf. Jonathan is the MLA for Calgary-Egmont and also the newly appointed parliamentary assistant to the Minister of Energy. He had a meeting scheduled, so he could not be here. On his behalf I would like to welcome you to the Calgary-Egmont constituency for the 2009 annual public meeting of the Standing Committee on the Alberta Heritage Savings Trust Fund. I hope you will have lots of questions and comments tonight.

I'd like to introduce the members of the Standing Committee on the Alberta Heritage Savings Trust Fund who are here tonight: Mr. Doug Elniski, Deputy Chair, MLA for Edmonton-Calder; Mr. Robin Campbell, MLA for West Yellowhead; Ms Alana DeLong, MLA for Calgary-Bow; Mr. Art Johnston, MLA for Calgary-Hays and the past chair of this committee; Mr. Darshan Kang, MLA for Calgary-McCall; Mr. Hugh MacDonald, MLA for Edmonton-Gold Bar. We also have a great pleasure to receive a special guest with us tonight. I'm pleased to introduce the Hon. Iris Evans, Minister of Finance and Enterprise.

Now I would like to turn the meeting over to the committee chair tonight, Mr. Doug Elniski.

The Deputy Chair: Thank you very much, Wayne. Yes, ladies and gentlemen, it is a bit unusual for the deputy chair to step up, but Heather sends her regrets. She's under doctor's orders that she's not supposed to be here. We had a meeting on Wednesday where a number of us decided that she should probably go home, so she is at home resting. But rest assured that even while she's recuperating, she's sent me about four e-mails since 7 o'clock, which is, like, two minutes ago, wanting to know how the meeting is going. So while she's not here, she's certainly committed to the cause.

With that, I'd like to welcome you all to the 2009 annual public meeting of the Alberta heritage savings trust fund on behalf of the Standing Committee on the Alberta Heritage Savings Trust Fund.

There are a few other people tonight that I'd like to introduce before we get down to business. The staff from the Ministry of Finance and Enterprise located over here: Mr. Lowell Epp, who is the executive director of capital markets, treasury and risk management; Rod Babineau, manager of portfolio analysis; Kari-Ann Kuperis, public affairs officer, who's back over there. Staff from the Alberta Investment Management Corporation: of course, Mr. Doug Stratton, the director of fund management, and Dr. Gary Smith, their senior economist and strategist. You'll be hearing some more from those folks a little later on.

I'd also like to introduce some folks from the Legislative Assembly Office. We have Corinne Dacyshyn, committee clerk; Tracey Sales, communication services officer; and Janet Schwegel and Moira Calder – and I just love the name Calder, of course – from *Alberta Hansard.* So welcome.

This meeting is being recorded for *Alberta Hansard,* so copies of the transcripts from this meeting will be available online at the Assembly website or by calling the committee phone number listed. I think it's on all the brochures, copies of which were handed out to you. If you don't have one, make sure you get one. There's a bunch of information at the front door.

Tonight's presentations are going to cover the history, the mission, and the future of the heritage savings trust fund as well as some discussions about long-term performance. A question-and-answer session is going to follow.

Now I'd like to start our presentation. I'll start with some background. The Alberta heritage savings trust fund was started in 1976 and has been a unique aspect of Alberta finances for over 30 years. No other province has such a fund. From 1976 to 1983 the fund grew as 30 per cent of the province's oil and gas revenues went into the fund. From '84 to '86 the amount saved in the fund was reduced to 15 per cent of oil and gas revenues due to the increasingly difficult fiscal situation that was facing the province. From 1982 onward all income from the fund has been transferred to the general revenue fund to meet the priorities of the province except for some ad hoc inflation-proofing that occurred in 1997, 1998, and 2000 for approximately $431 million, which I believe are the dark lines you can see on the chart there. Since 2005 the government has been making legislated inflation-proofing contributions. There was no inflation-proofing in 2008-09 because the fund recorded a negative income. There is also no inflation-proofing scheduled for this year because the inflation forecast continues to be negative.

The value of the heritage savings trust fund depends upon the amounts deposited into the fund, the amounts taken out of the fund, and the investment earnings for the fund in each year. Beginning in 1986, we started using the fund's income to meet spending priorities in the province, leaving the fund's value fairly flat until recently. The fund had grown to $17 billion in 2008, the highest recorded level ever, but was impacted by last year's market crash, which we'll talk about a little more later.

Now I'd like to turn this over to Robin Campbell to carry on.

Mr. Campbell: Thank you, Chair. On average the heritage fund has earned almost $1 billion per year since it was first set up in 1976. By law all realized investment income from the fund less the amount retained for inflation-proofing is transferred to the general revenue fund to be used to help pay for health care, education, social programs, infrastructure, and capital expenditures.

When Alberta's economy has struggled, income from the heritage fund has allowed the government to avoid deep cuts to important social programs and raising taxes any more than has been necessary. Last year was only the second time since its inception that the heritage fund has not added to the provincial revenues. It is important to note that income from the fund is for the present generation of Albertans while the capital of the fund is for future generations.

The heritage fund has helped put the province in a solid fiscal position, and Albertans will continue to benefit from the fund's contributions. All those billions shown on the last slide add up. During the fund's 30-year history the fund has provided a little over $30 billion for Albertans' priorities, including debt reduction, health care, education, social programs, infrastructure, and capital expenditures.

In addition to the $30 billion I mentioned, there are two additional endowment funds that make social and economic contributions in Alberta. Two important endowment funds, the medical research fund and the scholarship fund, were funded from the heritage fund. The Alberta Heritage Foundation for Medical Research endowment fund was started in 1980 with a $300 million contribution from the heritage fund. The medical fund has been instrumental in providing research and advances in medical science and has also provided a competitive edge to the biotechnological industry. The medical research endowment fund now has a market value in excess of $1.2 billion. The Alberta heritage scholarship fund was established with a $100 million transfer from the heritage fund in 1981. Each year millions of dollars of income earned from the scholarship fund help pay for Albertans' postsecondary education. This fund now stands at over $645 million.

On average the fund generates about $1 billion per year in investment income, or 3 to 4 per cent of government revenues, but when government first began to draw on this income, it brought in closer to 13 per cent of government revenues. The relative importance of the heritage fund to pay for Alberta's social programs grew from 1976 to 1982 as we were growing the fund. The relative importance declined during the years we were spending the income. This decline shows more the growth of Alberta rather than a reduction in investment income. The percentage contribution will grow if we save money in the heritage fund faster than the overall size of government increases.

Part of the reason for the recent growth in the heritage fund was the creation of the access to the future endowment, established in 2005. The access to the future endowment was established to provide sustained funding for initiatives designed to enhance advanced education. The investment earnings of this portion of the heritage fund provide this funding. One example of how this money is being used is the development of the Lois Hole Campus Alberta Digital Library. This digital library will allow postsecondary students and faculty across the province to access the digitalized resources and knowledge currently held at individual libraries of postsecondary institutions. The access to the future endowment was created as part of the heritage fund rather than as a distinct endowment. One billion dollars of deposits made to the fund in the last two years has been directed towards this new endowment.

I'd now like to turn this over to my colleague Alana DeLong.

Ms DeLong: In the early 1990s Albertans were concerned about the sustainability of investment income. Many Albertans were wondering whether the fund should be sold off to pay down the debt of the province. In 1995 questionnaires were sent to Alberta households asking what to do with the heritage fund. After extensive consultation the government decided that the mission of the fund should be to focus on maximizing financial return to allow current and future generations of Albertans to gain maximum benefit from the fund.

The Alberta Heritage Savings Trust Fund Act states that the mission of the fund is to "provide prudent stewardship of the savings from Alberta's non-renewable resources by providing the greatest financial returns . . . for current and future generations of Albertans." Extensive changes were made to focus on this mission. These changes included new legislation for the heritage fund, an improved governance structure, and selling investments that had been made for other than financial reasons. Essentially, the fund is now managed on the same basis as an institutional endowment fund.

7:10

I'll discuss the governance in place to achieve this mission. One of the principles of governance for the heritage fund is transparency. A detailed business plan is developed every year and submitted to the standing committee for approval. The plan sets out specific investment objectives, goals, and strategies to achieve the heritage fund's objectives as expressed in the legislation.

The heritage fund annual report is prepared and published within three months of the end of the province's fiscal year, which is March 31. The annual report provides a comprehensive review of the activity and results of the fund for the year.

Every quarter an investment report is prepared for the heritage fund. This quarterly report provides information about the investments held by the fund, the performance of every investment sector, and an overall review of the fund. These documents are always available online at www.albertaheritagefund.com. Copies are also available at the back of the room.

Another fundamental principle of the governance structure is accountability. The performance of the fund is reviewed by this standing committee of the Legislative Assembly and by the public in annual meetings like the one we're having tonight. The standing committee is required by law to review and approve the business plan, receive and review quarterly reports, approve the annual report, review the performance of the heritage fund, report to the Legislature as to whether the mission of the heritage fund is being fulfilled, and hold public meetings with Albertans.

The Alberta Heritage Savings Trust Fund Act sets out a well-defined standard of care in the management of investments, that of a reasonable and prudent person. Clearly defined benchmarks are also established to evaluate the performance of the fund's investments. For example, the Standard & Poor's/TSX composite index is used to measure the performance of the fund's Canadian stocks.

The legislation governing the heritage fund makes the Minister of Finance and Enterprise responsible for managing the money invested in the fund. Now, this responsibility has three key components: establishing investment objectives and policies under which the fund will be invested, which includes setting out the target asset allocation for the fund; implementing the investment policy through day-to-day investment management; and evaluation of investment performance, including evaluation of the investment policies and the implementation of these policies.

In January 2008 the investment division of the ministry of finance became a Crown corporation called the Alberta Investment Management Corporation, or AIMCo. AIMCo is responsible for the day-to-day execution of the investment policy set by the government. The responsibility for investment objectives and performance evaluation belongs to the Minister of Finance and Enterprise, who is supported by a team of professionals from the Department of Finance and Enterprise in meeting this responsibility.

Now I'll ask Art Johnston, MLA for Calgary-Hays, to continue.

Mr. Johnston: Thank you, Alana. The investment objective of the fund is to maximize long-term financial returns subject to an acceptable level of risk. The fund has a long-term view and tries to look past short-term market turmoil like we've been experiencing over the past year. Strategies are targeted that can generate return on a consistent, repeatable basis.

Meeting the investment objectives of the heritage fund requires a global outlook. Accordingly, the fund's assets are invested around the world in a diversified portfolio of investments, which includes stocks, bonds, and real estate. The widely diversified portfolio helps reduce risk but also enables the fund to earn higher returns than it otherwise could.

Cost is an important issue for the fund. The heritage fund's investments are pooled with other AIMCo clients to provide investment efficiencies. As a result of having about $70 billion under management, AIMCo has a clear competitive advantage, resulting in lower investment management costs and higher net investment returns for the taxpayers.

The pie chart that you're seeing now illustrates the policy asset mix of the fund. This is an asset mix shown in the heritage fund's business plan, and the policy asset mix guides the investment of the fund. Ranges are established for each asset class. This ensures that the fund has investments in each major asset class but allows the manager the freedom to take advantage of their expertise by increasing or decreasing holdings.

The fund has significant investments in equities, including foreign equities: the U.S. and non North American; is broadly diversified by country, industry sector, and company; and has a significant component that is managed externally. The fund also has an important allocation to inflation-sensitive and alternative investments, which includes real estate and infrastructure, as well as allocations to hedge funds and private investments.

Overall the fund had a negative performance for 2008 and 2009 thus far, posting a negative 18.1 per cent return for the year ended March 31, 2009. This was largely due to very poor performance in the world equity markets. Fixed-income investments were also affected by the poor credit markets that occurred in 2008. The good news in the portfolio came from the real estate holdings, which make up 10 per cent of the heritage fund. Real estate posted a strong 4.8 per cent return, which helped offset some of the losses from equities and fixed income.

Of course, we want to focus on the long-term performance of the heritage fund. The chart that you're seeing outlines the historical performance of the fund over the last five years. As a result of last year's market crash the fund generated a five-year average annualized return of 2.6 per cent, down from the five-year average of 11.1 per cent last year. The heritage fund is expected to generate a rate of return of 4.5 per cent above inflation at an acceptable level of risk over a moving five-year period. Over the last five years inflation averaged 2.2 per cent.

I will now turn it over to Doug Elniski.

The Deputy Chair: Thank you, Art.

Next slide, please. It's critical that the fund grow with inflation, that it retain its ability to be a sustainable source of revenue. Every year since 2005 the fund has retained a portion of its investment income to offset inflation. Since there was no investment income earned in 2008-2009, there was no money available for inflation-proofing. As I said earlier, since inflation is actually forecast to be negative for this year, there will be no inflation-proofing for 2009-2010. Prior to this year the fund had accumulated $1.56 billion in inflation-proofing to protect the fund against inflation. Inflation-proofing will continue when required now that the accumulated debt has been repaid. In the future income from the heritage fund will depend on capital market returns and the amount of money invested in the heritage fund.

Looking ahead, the Department of Finance and Enterprise officials continue to work with AIMCo to ensure that the heritage fund is being invested as best as it can be. An extensive asset mix review is completed, and the work is under way to draft a new investment policy statement for the fund for the minister's review. I'm also pleased to point out that the heritage fund did very well over the first quarter of this year, earning very nearly $1.1 billion on a fair-value basis. Keep in mind, though, that the markets are still vulnerable, and it's too early to tell if this rise will be sustained over the long term.

The committee members are happy to give Dr. Gary Smith of the Alberta Investment Management Corporation an opportunity to talk to you about markets.

Dr. Smith: Thank you very much. An earlier slide showed the 12-month returns realized by the heritage fund on various asset classes. On the screen now you'll see annualized returns for selected indexes realized over the 10 years ended March 31, 2009. As you can see, it was a bad 10 years. To be sure, the last year of that period did most of the damage. Indeed, in calendar 2008 the TSX composite index fell 33 per cent, its worst year ever.

While we often focus on the equity markets, it's important to know that the crisis was caused by turmoil in the credit markets. There was a rapid withdrawal of capital that had been on loan to households and corporations. When credit is withdrawn rapidly, it can have a severe impact not just on financial markets but on the real economy. This was certainly the case this time round. When credit disappeared, activity in the real economy seized up. Production all around the world collapsed.

7:20

On the screen you'll see indexes from Canada and the United States industrial production. The level is not important, but what is important is the sharp decline that you'll note starting in late 2007 and early 2008. While I'm showing Canada and the U.S. on the screen, it's important to note that similar charts can be produced for most industrialized countries.

When activity seizes up like this, people lose their jobs and are unable to spend and even if they have jobs are unwilling to spend, and you have the potential for a vicious circle in the real economy. To prevent this, governments and central banks around the world stepped into the marketplace with an extraordinary amount of intervention.

On the screen I note the extraordinarily low levels of interest rates being targeted by central banks. There has been a massive fiscal stimulus also; in other words, massive spending on the part of governments around the world. I'll just note that on the screen there's a little error. The Bank of Canada rate got covered by the title. It's .25 per cent.

Central banks, most notably the U.S. Federal Reserve and the Bank of England, have engaged in, using the parlance of my profession, quantitative easing as well, wherein they simply buy securities with money that they are creating. They are virtually stuffing money into the banking system, where it is hoped that new money will be lent out. The bottom line is that authorities have pulled out all the stops to see that this vicious circle that I talked about doesn't happen.

At this point it appears to be working. We've seen market upturns in various leading indicators around the world and strong improvements in financial markets since early March. On the screen you'll see the index of leading indicators for the 30 developed countries that make up the Organization for Economic Co-operation and Development. Since early March as well the S&P/TSX composite has returned over 33 per cent from the end of March through the 18th of September of this year.

What does AIMCo see looking ahead? We see the global recovery to be fitful and not particularly strong but to be a recovery nonetheless. There's a lot of excess capacity in the system, which suggests inflation pressures will be very moderate for an extended period. We expect continued volatility in markets, with equity markets on balance delivering modest returns. Such a market view calls for broad diversification across asset classes and geography. We expect also global central banks to remain stimulative for some time.

With that I'll conclude my comments.

The Deputy Chair: Thank you very much.

That concludes the formal presentation, but I just want to help put some of this into context for everybody for a moment. This is a little statement that I learned, actually, from the minister of finance. She talked about this some time ago. If you earned a dollar a second 24/7, you would make a million dollars in 14 days. It would take you 32 years to make a billion. Now, I point that out to people because we're often pretty free and easy with the B word, and I just want you to understand from a context perspective just how very much money that in fact is: a dollar a second, 24 hours a day, seven days a week, 32 years.

I'd like to take a couple of minutes now to thank a few people before I open the floor for questions. On behalf of the committee I'd like to thank Jonathan Denis, who's not here, so I'll thank Wayne Cao for hosting us this evening; then thanks to Gary and the other AIMCo folks for providing us with the market updates; thanks also to the staff of Alberta Finance and Enterprise for providing all the necessary information regarding the heritage fund and for completing this evening's slide presentation; and, of course, thank you to the staff of the Legislative Assembly Office, who provide the administrative support and the *Hansard* record for this evening.

Now I'm going to open the floor for questions. We have a microphone set up in the room here. So that we record this for posterity, we'd like you to state your name and then go ahead and ask your question. First one up is?

Mr. MacDonald: I have a question, Mr. Chairman.

The Deputy Chair: Mr. MacDonald, certainly.

Mr. MacDonald: Yes. Thank you. Good evening, everyone. My name is Hugh MacDonald, the MLA for Edmonton-Gold Bar, and I have a question for the minister or one of the investment advisers. Investment income can change quickly, as we know, and changes in the exchange rate affect return from investment in foreign assets. We know we have a lot of foreign assets held in the heritage savings trust fund. One of the economic assumptions in last spring's budget was an 83 and a half cent Canadian dollar, and now we have it, six months into the fiscal year, fluctuating as high as 93 cents. How is that exchange rate affecting the investment return on the heritage savings trust fund right now?

Ms Evans: May I respond? First of all, I'm the Minister of Finance and Enterprise. Thank you for the question. As you know, the first-quarter report acknowledged that the Canadian dollar was not in an advantage position for accounting for some of the other situations we have in the fund or in our budget. But relative to the heritage fund I'd just turn it over to Lowell Epp to give a response. Lowell and Gary will be collaborating on showing you where in the report you might see some indication. Please.

Mr. Epp: At the end of March 31, 2009, at the end of the fiscal year, we had about 30 per cent in foreign equities, and that would be the primary foreign currency holding. The strategy of the heritage fund with respect to currencies is to leave it unhedged. The primary reason for that is that research shows that trying to call currencies for a broad portfolio over the long run does not provide positive returns. It is an issue that we continually study, but the province has foreign exchange risks throughout its fiscal situation. All of its revenues, oil and gas, and its investments are sensitive to foreign currencies, and the relationships to those are continually changing, so it is something that we pay a lot of attention to.

The Deputy Chair: Thank you very much.

Questions from the audience, ladies and gentlemen? Go ahead, sir, please.

Mr. Van Dalen: My name is Rennie Van Dalen, Calgary south. Mr. Chairman, I have two questions and an observation. Can I deal with all these at once or just one question?

The Deputy Chair: Oh, go hard. If we need you to back up, we'll get you to back up.

Mr. Van Dalen: Let me know if you want me to sit down.

The Deputy Chair: Oh, you betcha. No problem, sir.

Mr. Van Dalen: My first question relates to the revised investment policy statement announced in I believe it was March, April of 2009. The biggest investment loss in 2009 related to investment in equities, about 30 per cent loss. It showed 18 per cent or something for the fund overall, but that hides the fact that we had kind of a disastrous loss, like a market-type loss, in equities. Is it prudent, therefore, to raise the maximum investment limit for equity investments to 75 per cent? That's the range: 35 to 75. What about the new limits set for derivatives? Is the government of Alberta taking on too much risk in trying to enhance performance of the AHST, that's the fund? Is this done to compensate for the current lack of contributions to the fund from oil and gas royalty income? In other words, are we taking on too much risk? Are we getting too aggressive?

In my view this is not a prudent and fiduciary approach to managing our heritage endowment legacy, which requires that we ensure that its value will be preserved for future generations of Albertans.

I can follow this up immediately with another question, like a supplementary to this, so perhaps they could both be answered.

The Deputy Chair: Well, can we take the first two questions? We'll get the minister to deal with those, and then we'll come back to your next one. Is that okay?

Mr. Van Dalen: Yeah.

The Deputy Chair: Okay. Perfect.
Minister.

Ms Evans: Thank you. Actually, I'm very impressed, Rennie, that you have reviewed the asset mix for both this year and last year to determine that there has been a change in the policy. Part of that change relates to the fact that AIMCo was established as an arm's-length Crown corporation for January 1, 2008. It's sort of like having a gifted child. There comes a point where you want them to be able to demonstrate their capacity for entrepreneurial management.

7:30

This was actually very thoughtfully and deliberately debated through at least two ministers of finance before I came along. The thought was that if we had AIMCo established in this way, they wouldn't necessarily be bound by a very narrow band of investment opportunities. They could take advantage of a wider band. There was a lot of discussion between AIMCo and the department.

I'll let Lowell amplify on the specific points about the derivatives and the equities that you mention.

Mr. Epp: I'll back up a little bit. Before we entered into or started discussing and creating a new portfolio policy mix, we did an extensive amount of study. Along with an adviser – State Street Global Advisors I believe their name is – we did what is known as an asset mix study, which is an extensive study where we took a number of portfolio statistics and expected returns, correlations among those assets, and we ran many simulations to see what the optimal portfolio strategy is.

Mr. Van Dalen: Pardon me. What kind of portfolio are you speaking of here? What kind of portfolio? Is it something that you look at as a legacy or endowment-type portfolio, or is it an investment? You can have various strategies. You can be aggressive or less aggressive, you know. What was the criteria for determining this investment statement?

Mr. Epp: We view it as an endowment, and we treat it as a long-term investment. When we're doing that, one of our base objectives is a very reasonable rate of return, which is a 4 and a half per cent real rate of return. That is similar to many endowments and is lower than other endowments. In the United States it's more common for endowments to target 5 per cent real returns. What we found in our asset mix study is that our previous investment policy was not optimal. It gave us a higher level of risk for the same level of expected return.

Mr. Van Dalen: To achieve that 4 and a half per cent, you need to step out that far on the risk scale, do you? Like, up to 75 per cent with derivatives? You could have a hundred per cent between equities and derivatives the way I read it. Is that right, I mean, technically, theoretically?

Mr. Epp: Well, I can comment on the derivatives. Our target amount is 50 per cent equities. Yes, I believe the limit is 70 per cent. Yes, AIMCo can go that far, but they are not going to do so lightly. They are going to do so only when they see very good opportunities. But, yes, they can go to 70 per cent.

As far as derivatives go, they are used as a tool that can more efficiently get us into markets. Derivatives are used by AIMCo most commonly to replicate foreign equity market returns. We will use derivatives, a combination of derivatives and short-term, high-quality fixed-income investments, to replicate the returns of the European stock markets or the Asian stock markets or even the American and Canadian stock markets. This method is more efficient than buying stocks and actually, instead of holding a constant basket of stocks, can provide better returns and lower costs.

Mr. Van Dalen: I'm not trying to second-guess AIMCo here, but do we truly understand them in this market? Do we know how to value them? You know, it's a problem for me.

Mr. Epp: We have very sophisticated systems both within the department and within AIMCo. Those systems are constantly being enhanced to value derivatives. We are improving our counterparty exposure measurements as well as looking at ways to enhance collateral among counterparties. It is something that is taken extremely seriously.

Mr. Van Dalen: Thank you, Mr. Epp.

The Deputy Chair: Lowell will be available after if you want to follow up on that particular question. You had another one, Rennie?

Mr. Van Dalen: I have a follow-up to this.

The Deputy Chair: Oh, you have another question?

Mr. Van Dalen: Yeah. A follow-up. The fund's investments have been managed by AIMCo for about I believe it's a year and a half, two years.

Ms Evans: January 2008.

Mr. Van Dalen: Okay. A year and a half. I know that it's somewhat early to pass judgment on their performance, but there can be no question that during fiscal 2009 the fund has underperformed market-based benchmarks by a significant margin. In the circumstances my question is: what is the value of having an investment manager, and can the rather significant related expenses be justified? For example, with the equity investment portion of the portfolio why not just buy the market indices?

Ms Evans: You know, may I say that we had quite a long discussion and debate on that at the Treasury Board when it was decided to establish an Alberta investment management corporation. It was determined – it's maybe a highly simplistic argument – that if we were to hire an investment management organization, it would very likely be in Toronto or someplace else but outside of Alberta. It was deemed so appropriate to have the talent here in Alberta to build an Alberta investment management corporation. You would note today that of the securities in Canada roughly 27 to 28 per cent are invested right here in the province. This city, this very city, has a fairly awesome financial cluster. We wanted to build the talent to be available to manage some $70 billion because, as you know, they manage the heritage fund, the cash management, the endowments, the sustainability fund, and the pension fund, so roughly $70 billion worth. We wanted to have that right here in Alberta, so that was the determination.

Now, there were some external consultants that were used quite extensively, more extensively in the past than they currently are. AIMCo has done a very sophisticated model with our department to look at the rate of return on our investments by diminishing the dependency on outside consultants and looking internally to see if we can build the talent. If you look over a spread of some 20 years – and I think that that could be provided for you – there is a better rate of return for developing the talent internally. Yes, this year, because of building the information management and payroll systems, we had some extraordinarily high costs getting them separated from government, but we believe that in the long term this will bear fruit.

I wonder if perhaps Doug or Gary want to add to that comment about why we're with AIMCo rather than elsewhere.

Mr. Stratton: Sure. If I may pick up on just two comments. One is on fees. It's a very good observation that it's important to watch fees. Actually, an important part of our investment thesis, if you will, is to keep costs low. AIMCo corporation is struck as a cost-recovery only according to the act, so one of our strategies is to reduce fees and costs as much as possible.

The second part of your question was with respect to indexing equities, and actually it's another interesting observation. At times it is a reasonable thing to be less aggressive in terms of your active management. But at times the market does provide opportunities of significant dislocation in values, so it is prudent for a long-term fund such as this . . .

Mr. Van Dalen: To me the timing could not have been worse to give you guys latitude of up to 75 per cent for equities. I could not believe it, but anyway, here we are.

Mr. Stratton: During the period, of course, we did not move to 70 per cent equities. We actually slightly underweighted equities through the period.

Mr. Van Dalen: I have one more observation if I may.

The Deputy Chair: Certainly. I have a couple of other people that are signalling.

Mr. Van Dalen: I realize that, but, you know, I'm willing to stay till 11 o'clock if we have to. I think it's important enough.

The Deputy Chair: Carry on. It's quality stuff.

Mr. Van Dalen: Very important issues that we're dealing with tonight, billions of dollars. Don't forget the "b," right?

The Deputy Chair: That's right. Don't forget the "b."

Mr. Van Dalen: This is not a question, merely an observation, a recommendation that has to do with our present philosophical approach to ownership of the Alberta heritage savings trust fund. The preamble to the Alberta Heritage Savings Trust Fund Act states – and we saw it before – "to provide prudent stewardship of the savings from Alberta's non-renewable resources by providing the greatest financial returns on those savings" to Albertans. The problem I have with this statement is the use of the word "savings," which lacks a definition. It is subjective and open to interpretation. What are savings? Does it mean that contributions to the AHST should only be made when there is a provincial budget surplus? If we really mean to build a meaningful legacy and ensure Alberta's wealth for the time when the wells run dry, we need to rethink the way we view the royalty income stream from our nonrenewable resources.

7:40

An example of our flawed thinking about this issue is the government's apparent dismissal of the recommendations made by the Financial Investment and Planning Advisory Commission, chaired by Dr. Jack Mintz. The thrust of their report, which was released in November 2008, I believe, and contained 17 recommendations, was that the province grow the size of the fund to $100 billion by 2030. To reach that ambitious goal, a more self-disciplined funding system than what we currently have needs to be put in place. However, the government has decided that in the present economic environment we cannot afford it now.

Personally, I would go farther than the Mintz report by recommending that the government of Alberta must regard itself as a taxpayer, in quotation marks, in this instance, which in itself is an interesting concept to ponder. In saying this, I have in mind that regardless of provincial budget needs a portion of the oil and gas royalty income scaled to commodity prices would automatically flow into the fund. This mandatory contribution requirement would need to be enacted into law, thus requiring a complete overhaul of the present Alberta Heritage Savings Trust Fund Act.

In conjunction, the funds should not remain under the direct control of the government but operate on an arm's-length basis, perhaps under the independent management of a Crown corporation, thereby removing any tendency or temptation by the government to balance the books, so to speak, by withholding contributions to the fund, as is now the case.

Ms Evans: May I respond just briefly. I thank you for your observations. I really know that our Premier has charged me with looking at the savings policy, and we were in the midst of it based on the Jack Mintz report and other documents that we have been studying. I suspect that had we not hit the crash last fall, we would have been in a different position, but you can check with Dr. Mintz. He noted that while you are spending your emergency savings, which is our sustainability fund, that we are now spending from to rather protect our budget this year while we gear down to a lower expenditure base – you cannot gain by continuing to allow the interest funds to accrue in the heritage fund while you're spending your emergency savings. He made the comment to me that it wasn't going to be useful to continue to try and protect that fund by saving the earnings while we still were paying off a deficit. Our target, Rennie, is to pay off that deficit that we're incurring now in our emergency savings and then get back on track with the savings. Many of your observations I agree with.

Mr. Van Dalen: I know, but my concern is that we were on the wrong path before the market crash already with our budgets and our overspending. Dr. Mintz in his report recommended that we put a cap of 3 and a half billion dollars on the stabilization fund, right? Three and a half billion dollars. Well, that won't even get us anywhere now. This is not a political meeting, so I won't speak, but I'm having great concern.

The Deputy Chair: Well, thank you very much. Those were very, very well-thought-out comments, and we certainly appreciate hearing them and appreciate receiving them. Actually, if you would catch up to me at the end of the meeting, I'll give you my card.

Mr. Crosby: Good evening. My name is Lloyd Crosby. I'm actually a chartered accountant with EnCana, so I understand a bit of what you're talking about, and I'd like to say that I wish my investments did as well as the heritage fund. I appreciate that it's down, but I appreciate that you've got decent controls in place, hopefully, to keep it to a minimum.

I have two questions.

Ms Evans: I wonder if someone could move your microphone up because I think they can't quite hear you at the back.

Mr. Crosby: We'll try it from there.

Ms Evans: Thanks.

Mr. Crosby: All right. So my first question. I was hearing on the radio recently that Alberta is looking to perhaps issue debt, and I was wondering what the heritage fund's position is if the Alberta government is ever to issue debt. Would they be involved in looking to purchase?

Ms Evans: I'm not sure. You're saying "issue debt"? I didn't hear you.

Mr. Crosby: Yes, I did. So if the Alberta government is going to issue debt in whatever form that be, be it a government bond or whatever, would the heritage fund be an investor? Would they be looking to purchase?

Ms Evans: I would ask the gentlemen from AIMCo to give a response. We are definitely looking at an issue of Alberta bonds for Albertans to invest in. There has been some suggestion, although there hasn't been a determination that we'll do that yet, to have bonds for specific projects. Some of the things that come to mind are projects that the greater Albertan might value, whether it was a piece of infrastructure, hospitals, schools, and so on. But I don't know if that policy discussion has actually come at the AIMCo table. They're meeting, actually, this evening as we speak. Perhaps Gary or Doug would like to comment.

Dr. Smith: Well, Lowell can enlighten me because you have discussions with the AIMCo folks on the policy with respect to buying Alberta debt.

Mr. Epp: It's a complex situation. As the heritage fund is fully consolidated, if the heritage fund buys Alberta's debt, it's wiped off on both sides of the balance sheet, as you can appreciate.

Mr. Crosby: I appreciate that. That's why I'm asking the question.

Mr. Epp: There is no firm policy that prevents AIMCo from purchasing Alberta bonds on behalf of its clients – and the heritage fund is one of its clients – but it is something that we are exploring and studying further. By its very nature it has some government clients and some pension fund clients, and it operates on a pooled basis to reduce costs, as was mentioned earlier. So it's not easy to segregate the heritage fund's purchases from, say, the local authorities pension plan's or special forces pension plan's purchases. It's an excellent question and very apropos.

Mr. Crosby: Can I refine my question, then?

Mr. Epp: Sure.

Mr. Crosby: I'll refine my question by asking: are you under any mandate to do so or any mandate not to do so?

Mr. Epp: There is no mandate either way.

Mr. Crosby: Okay.

Mr. Epp: It is something that we have talked to AIMCo about. As you may know, Alberta issued $600 million of bonds earlier this week. My understanding is that AIMCo did not participate in that offering. But there is no formal directive one way or the other.

Mr. Crosby: Okay. Thank you very much. I appreciate that.

I have one more question if I may. From my history in audits that I've done as a chartered accountant, I realize that one of the most important things for a fund is the controls, especially the back-office controls. In flipping through the annual report, one of the things that I don't see is any reference to what that control framework is, whether that control framework is being reviewed on a regular basis and what the results of those reviews are. I'm wondering if you can add some comment as to how often the controls are reviewed and what the results have been.

Mr. Stratton: Yeah, it's very important in all organizations and certainly in finance to have very strong back-office controls. We're putting a lot of focus in AIMCo today on building our back office even further and adding staff there. As far as the governance, of course, we have a board in place that deals with these things, which includes a committee structure. Of course, the Auditor General audits AIMCo as a Crown corporation, so they have a report which can be found to review some of their comments. We take those comments very seriously, and we follow up with the Auditor General in dealing with all the comments they make during each of their annual reports.

7:50

Ms Evans: On an annual basis and, in fact, whenever required, the Auditor General has done his due diligence by not only sending to the minister of finance and the Treasury Board the issues around the audit. I've spoken with the Auditor General, and actually he has been quite laudatory about AIMCo's work in trying to get their systems up and running, too. If you've read the last two years of the Auditor General's reports, he has been citing payroll systems, HR systems, how we're doing our accounting management and the technology that supports that. There has been significant investment this year to get those systems up in the form that he would appreciate.

I spoke with him on this subject about three months ago, and he was very satisfied that we were making significant progress. I think that's laudable in this period. Although AIMCo started in January, the CEO, Dr. Leo de Bever, did not come on until August last year, and there's been significant work not only in the changeover of the staff from being departmental staff last June but the changeover of systems that has happened in the last 12 months really. We'd certainly, I'm sure, be able to provide you more detail on that.

This fund is of extreme importance to the province because it is not only the management of the heritage fund but AIMCo, of course, as I said earlier, managing some $70 billion worth of assets for people in the province of Alberta.

The chair said that one of the members here wanted a clarification.

The Deputy Chair: Mr. MacDonald.

Mr. MacDonald: Yes. Thank you, Mr. Chair. Lloyd, I too was like you when the $600 million bond issue was initiated earlier. I had questions about how all this worked. It is my understanding that the new Fiscal Responsibility Act maintains or requires the debt retirement account to be equal or greater than any accumulated debt as defined. It gets back to the gentleman from Calgary south, Rennie: just exactly what does "as defined" means? But any debt that we have, as I understand it, has to be for capital investment for government-owned assets, the SUCH sector – school boards, universities, colleges, hospitals – self-supporting corporations like Alberta financial services corporation or the ATB; and also any of the pension obligations we have for the teachers. I thought it ended there, but you have a very good question. In the past the heritage savings trust fund has been very active in building government assets for the citizens throughout this province, including many seniors' retirement homes which are still in use and in excellent condition today, 35 years and 25 years, in some cases, after they've been built.

The Deputy Chair: Thank you very much.

Mr. Crosby: Thank you very much for your responses tonight. I just would like to say that, you know, going through a period of transition with AIMCo where you are bringing on a new CEO, those are the times to have the good controls. So hearing you say words like "progress" tells me that obviously something was identified, and work is being done. I appreciate that, but the more rigour that we can have in that process, I think the better we'll be.

Thank you.

The Deputy Chair: Wonderful. Thank you very much.

Next question, please. Good evening.

Mr. Giesbrecht: Good evening. My name is Dean Giesbrecht. I have a couple of concerns. I see a big disconnect here. Maybe you can help clarify some things for me. I'm a former commodities trader, currency trader. One thing on this side of the fence, where I've sat with these guys, that I see as a concern is that you folks on this side are talking about a 4 and a half per cent rate of return that you would like to see. When I see the latitude that you're giving this group and the things that you talk about around prudent stewardship versus greatest financial returns, that to me is a problem. What I would like you to think about is: which do you really want? Do you want the greatest financial returns, or do you want 4 and a half per cent? You do not need to be giving these folks, as this gentleman said, 75 per cent of the portfolio in equities to be able to get a 4 and a half per cent return. So, you know, you need to be able to give them a very clear mandate of what exactly it is that you're looking to do. They do not need that kind of mandate to get a 4 and a half per cent return if that's really what you're looking for.

Having said that, I'd like to comment a little bit about what you were talking about earlier and ask a couple of other questions around your financial management. With that size of portfolio, what kind of value at risk are you willing to put on? That's really the risk measurement. If you look on page 3 of your return here, you can see the huge variation on the returns over the last five years. I realize you guys weren't part of that management team, but the change in returns is huge. That's not a 4 and a half per cent portfolio change. The risk return on that portfolio is much greater than that. I'm sorry. I'm just coming in here looking at this, but it's pretty obvious to me that that's not what the mandate is or at least what these fellows are doing. And I'm not saying that it's wrong. What I'm saying is that you have to be very clear on what it is that you really want, and I think there's been some concern. I guess my question is: what kind of value-at-risk numbers are you running? Do you have stop-loss measures in place? Who's monitoring them? Do you have a good back office that's checking that? How does it get reported up to these people, who are ultimately responsible for the taxpayers?

Thanks.

Ms Evans: Just a clarification before Lowell answers your question. It's 4 and a half per cent plus inflation.

Did you want to comment, Lowell?

Mr. Epp: Well, as far as stop loss and value at risk as it's oriented toward the long term, we don't have daily or monthly value at risk. We do look at – we're developing it right now – working with AIMCo to set a 12 per cent value-at-risk target based on 95 per cent of the time. The risk system is in place, but it's relatively new. Doug, you can chime in. We are working at that, and that is part of our new investment policy, and it's in progress.

Ms Evans: And I think certainly the vice-chair should comment on how frequent the meetings are with the officials and the committee.

The Deputy Chair: Certainly. We meet no less than quarterly, the group, to review the financial performance of the fund. Because it's an all-party committee, which kind of applies a little bit of due diligence across the entire organization, the questioning and the commentary is rigorous. Your points, however, are very, very well made and certainly will be a question that we'll follow up on the fund with. Thank you very much for that.

Sir.

Mr. Kettles: Thank you, Mr. Chairman. My name is Kettles. I come from Calgary-West. When I entered the meeting tonight the lady at the front gave me a questionnaire, and it says two things here: what would you like to know about the fund? I'd like to say that we need to save more and spend less of the fund. I mean, it's pretty clear to me what's going on here. This fund is going in the hole and badly.

Question 5 here is: "Please provide any additional comments to help us determine how best to inform you." Maybe you do this – and I think maybe you just alluded to it – but I would submit here that Albertans should be getting regular quarterly reports just as if you bought stock in the stock market. It's no different. So you get a quarterly report from any publicly traded company that you see here. I don't know that we're getting that, are we?

Ms Evans: Yes. You're in the only province that does quarterly reports, quarterly financial reports that report our levels and also the heritage trust fund.

8:00

Mr. Kettles: Okay. Brilliant. Then I stand corrected.

Then I got this other little card here that the lady just gave me, but that's before. I haven't read the annual report, right? So I look here, and I see that the heritage fund's average return over five years, it says, is 2.6 per cent. Now, let's be clear. That's before we had a market meltdown of the world. We had a boom time. Now, fundamentally that's dismal. I can do better than that at my age in the GICs, and I've done that for 20 years. My rate of return is a lot better than 2.6, and inflation is included. I would submit that this is dismal. Some of these gentlemen have said that this needs a serious recheck here because if you can't do better than 2.6 per cent – you know, you can go to ATB and buy GICs for that.

Then with the final report here I guess I'd like to know how much money we've really put in over the years. On page 14 I see some monies going in, and then I see some years where there's been nothing going in here in resource allocation. Is it right that we've put in $28 billion over 33 years? We've put in $28 billion, and then this other little thing here says that we've taken out $30 billion. I think there's a disconnect. I'm not as smart as these guys over here, as CAs and things, but it looks to me like we're spending too much and not saving anything.

The Deputy Chair: Well, I'll answer one of your questions. I don't normally talk about finance stuff because I leave that to the finance guys. The 2.6 per cent annualized rate of return over the last five years includes the meltdown. Even though we lost 18 per cent of the value of the fund last year – and jump in and correct me if I'm wrong – I understand that that's actually the 2.6 per cent. So overall in the last five years we're still dollars up even though we took the big hit there last year.

Mr. Kettles: It's still bad.

The Deputy Chair: Well, it's still bad, but, you know, I look at my own equities, and I would be pretty happy if I was up 2 and a half per cent sometimes.

Mr. Kettles: I didn't lose that much on equities.

The Deputy Chair: Didn't you?

Mr. Kettles: No.

The Deputy Chair: Oh, I did.

Anyway, your other questions. Did you gentlemen have anything else you'd comment on there?

Mr. Epp: There's no doubt that the market's returns over the last five years have not been what we hoped for or what we would expect over the long term. However, if we invested only in fixed-income securities, we would have significantly lower permanent income expectations. While it's true that we lost 18.1 per cent last year, six years ago we earned 22.5 per cent. So there's always a danger in looking at a specific five-year period because it's very sensitive to the beginning and end dates. If we go six years – I don't know what the math is – it would increase significantly because of that 22 and a half per cent year.

The fact is that as a long-term investment vehicle we are not looking for steady year-over-year returns. We are looking for long-term investment results. We know that there will be volatility year over year, but we expect that in the long run, as do many other pension funds and endowment funds, the best returns will come from a widely diversified global portfolio. It will provide us a reasonable level of risk. It's not risk free. We don't intend it to be risk free, but it will provide a reasonable level of risk, excellent diversification, and an expected return that can give us 4 and a half per cent real returns, 4 and a half per cent plus inflation over the long run. Yes, the last five years did not do that, and that's why we do investment policy reviews frequently. That's why we do studies on asset mixes, to try to adjust them to achieve those goals. That is one of our goals, and we take it very seriously. It's not that 4 and a half: oh, we didn't make it; oh, well. That's why we do all this other work, to try to achieve that goal. We know it's not going to always happen. You cannot deliver something that the markets won't allow you to deliver, unfortunately.

The Deputy Chair: Anyone else for questions?

Mr. Hooymans: Hi. My name is Chris Hooymans, and I'm here because I'm still not clear on why the province does not use the fund when they need money for their capital fund. The $600 million for the capital funds was just floated. It went out. Everyone bought it up in half an hour. You guys missed out on it completely. So it means we're paying out all kinds of profits to whoever when we've got all this money sitting in the bank. Why are we doing this?

Ms Evans: A good question: why aren't we borrowing from ourselves? In April, when we published the budget, we said in the business plan that over a three-year period we would borrow up to $3.3 billion. Part of that was with the anticipation that we would keep building our infrastructure. This year we're spending over $7 billion on infrastructure. There's been, I think, some concern that interest rates might go up, so it was better to borrow, hold the cash in the bank, and see about investing it wisely in a way that took advantage of, first of all, our triple-A credit rating – we've checked with the rating agencies to make sure that we would maintain that if we undertook some borrowing – and secondly, to enable us to get the best possible financial arrangement with whomever was building any piece of our infrastructure. If I was the Minister of Infrastructure, I would tell you that the costs have gone down considerably – not as much as some people might hope they would. But that borrowing was to some degree done as a hedge against the potential of rising interest rates.

We have the capacity to pay it back. It's being dealt with more in the context of our emergency savings, and that account at the beginning of the year was some $17 billion. That's not the heritage fund. It's the emergency savings, or the sustainability fund, of which we will spend an approximate $7 billion this year. Of course, the concern of our government is that we can't spend our emergency savings ad infinitum. We've got to, as this gentleman from Calgary-West has said, get our expenditure down and do things differently. But the borrowing was a deliberate strategy that we put in place in this year's budget, not to put in any additional long-term debt but to take advantage of some short-term opportunities when interest rates were low to get some additional dollars for capital. It's not for operating expense. It's possible it could be paid back very quickly if we made other budget decisions, but it was really an attempt to take advantage of the interest rates.

Mr. Hooymans: So it's going to be cheaper for us to borrow money from outside the province than to use our own money. Is that what I'm hearing?

Ms Evans: We looked at that, and it was a very big debate, interestingly enough.

Mr. Hooymans: It sounds odd to me.

Ms Evans: I don't know, Lowell, if you were the one that wrote the paper, but with the way that we manage that cash once it's borrowed, it's possible to yield a very small amount of money. I think it was less than $3 million on the interest rate while we hold that cash in reserve and anticipate where the markets are.

I would have to tell you that I can imagine, if I was sitting on your side, that probably some of you are feeling really critical. Why did Alberta have this? Why did we go down last year? It was a very big problem for us to face, the volatility of the markets. If there was any comfort, there were a lot of people in worse shape. Everybody that talks about Norway knows they went in well over a 20 per cent reduction, closer to 25 per cent. This idea of borrowing while the interest rates were low was in order to help us look at some of these capital projects on a shorter term basis and see whether we could get advantage funding, our P3s or some of these other things.

If you wonder about our accountability, at the end of the day you'll be able to read that because the consolidated statements of the province of Alberta show where we borrow every nickel, how we're managing that. So it's, I would say, more of a cash management strategy today than it is something that we expect to do long term. We are doing our level best not to incur debt.

Lowell, did you want to comment and clarify if I've got anything off base there?

Mr. Epp: No. I think you've got it.

Mr. Hooymans: It sounds like you've thought it out.

I do have a second question with regard to how we're investing the money from the fund. In Alberta we're facing some question on how we're going to provide energy for the province. There are a whole bunch of different initiatives at play, from nuclear to enhancing the growth of the tar sands. I was just wondering, being as it is Alberta's money, if any portion of that fund has been earmarked for development of green energy in the province.

Mr. Epp: The mandate of the fund is very clear. This fund is to be managed as an endowment or like an endowment. It is not there for public policy investments.

Mr. Hooymans: That's no, then. So none of this money is earmarked for development of green energy initiatives in the province.

Mr. Epp: Not from a public policy or a subsidization point of view.

8:10

Mr. Hooymans: Okay.

Mr. Epp: If AIMCo finds good investments that happen to be alternative energy investments, they're certainly going to invest in them, but they are investing on a commercial basis.

Mr. Hooymans: You know, standing on this side of the mike, it seems to me that we're falling behind the rest of the world in development of green energy, and we're looking at some very bizarre initiatives as far as developing or possibly developing nuclear power plants in the province when we're bypassing a lot of other stuff that we could be looking at as far as catching up with the rest of the world. I'm a little disappointed to hear that there is no initiative whatsoever to use Alberta's money to backstop the growth of the green energy field in this province.

Ms Evans: May I just make the observation that the Alberta Investment Management Corporation – and I talked to them about green energy at one of my very first board meetings. The board itself acknowledged just what Lowell said. Their motive is to manage it as an endowment fund.

I think you would find that if I were the Minister of Environment, I would tell you that all of the emission management funds are to be spent on exactly that kind of investment. Over the last year and a half we've collected over $123 million that is being reinvested in technology for that purpose. The Minister of Environment has also come talking very eloquently to the Treasury Board about making additional assignments to that dollar.

Currently while we are in the quandary of how to reduce our expenditures, admittedly higher on a per capita basis than other places, it'll be a lot of debate. But on October 5, 6, and 7 my colleagues will be debating those issues. After this meeting, particularly if any of you have any ideas to give them for where we can either reinvest or find ways of saving, we'd be grateful for it.

Mr. Hooymans: That amount that you mentioned, $123 million, seems very small compared to the $2 billion that we've earmarked for stuffing the carbon back into the ground. I'd like to see a little bit more of a balance there as far as a little bit more money for green technologies and less for, you know, trying to hide our garbage.

Ms Evans: Well, the amount I suggested was from the emission management and climate change account. It doesn't account for everything that Alberta invests in green technology. It's simply what we collect from fines to companies that breach those targets, and that's one particular account which is being managed by a board to do that.

If you leave your name, I'm sure we can get you an exact figure about what we are investing in green technology.

Mr. Hooymans: Thank you very much.

Ms Evans: You're welcome.

The Deputy Chair: Wonderful. Anyone else from the floor?

I know Mr. Darshan Kang had a question. Mr. Kang?

Mr. Kang: Yeah. We keep talking about $70 billion here. I just want to clarify: is this investment being held in U.S. dollars or Canadian dollars or in a basket of currencies to protect the investment from the fluctuation in the value of the Canadian dollar or the U.S. dollar? Do we have some kind of protection there, or is it just invested in U.S. dollars or Canadian dollars?

Mr. Epp: The fund is invested in a number of global equities. Those are typically not hedged. Equities are currently – the target is 50 per cent of the fund. Of that I believe that at the present time 10 to 15 per cent is Canadian. At the end of the year, as I've mentioned earlier, about 30 per cent was held in foreign equities. They are not all U.S.; they are global. I don't have a breakdown. Since the U.S. stock market makes up approximately half of the world's equity markets in terms of value, it would be a safe assumption that it's approximately half in U.S. dollars.

The Deputy Chair: Thank you very much.

Any further questions, ladies and gentlemen? I'd like to thank you all . . .

Mr. MacDonald: I have one.

The Deputy Chair: Oh, I'm sorry, Mr. MacDonald. Okay.

Mr. MacDonald: Yes. Thank you, Mr. Chair. My question again is to the minister of finance. Last week through an order in council the regulation for the Lobbyists Act came out, and there were some rather unique exceptions granted in that regulation. Why is the board of AIMCo exempt from the new legislation in the Lobbyists Act?

Ms Evans: The chair, Charles Baillie, came and spoke to me very seriously about this, being very concerned that in order for AIMCo to properly conduct its business, to register someone, for example, like Morgan Stanley as a lobbyist, which it would have to under the previous piece of legislation, would certainly not be beneficial in the management of AIMCo. I wonder, Doug Stratton, if you'd like to further amplify it. We've had a lot of discussion about this with AIMCo and their very big concern that we were going to fetter the smooth operation of the financial business and transactions. Could you, please?

Mr. Stratton: Thank you, Minister. We stay very focused on what our objectives are with respect to the monies that we manage for the pension funds and the insurance funds and the government's funds, and we operate very much on a commercial basis. So, for example, if a Morgan Stanley comes through with some particular idea, we only look on it from its investment merits and how it suits the investment objectives of our clients. That's very, very focused on those objectives.

The Deputy Chair: Wonderful. Thank you very much.

Mr. MacDonald: I have a follow-up to that, Mr. Chair, please.

The Deputy Chair: Okay. That will be the last one. Thank you.

Mr. MacDonald: Thank you. It would be this, quite quickly: then how are citizens, the owners of the $70 billion, to find out who is influencing the investment decisions made by that board if that board is not captured by the scope of the Lobbyists Act?

Ms Evans: Let's be really clear. The pension boards give very direct, unfettered direction to the Alberta Investment Management Corporation board, and that is not filtered in any through the finance department.

Mr. MacDonald, you know, you are a member of this committee. We have regular meetings. We had meetings this summer. So your assistance in the accountability, your representation of your community is part of how we expect to see questions in the Legislative Assembly. You have that opportunity.

The other opportunities, obviously, are through the Auditor General. The Auditor General from time to time gets questions from the community. Those are brought forward either to the minister of finance or directly through to AIMCo. There are any number of accountability mechanisms, and we'd be pleased to provide you a list.

The Deputy Chair: Wonderful. Thank you very much.

Ladies and gentlemen, it's been a pleasure to have you come here tonight. We certainly appreciated the turnout and thank you for your patience and time and attention for the last hour and 20 minutes.

Copies of the transcribed *Hansard* will be available online, and that's at the Assembly's website, which should be in your handout materials. Please nod your head over there. Okay. Bonus. It's in your handout materials. If you don't have Internet access for some particular reason, if you leave your name with the folks at the door – fill out the questionnaire, and in the questionnaire indicate your address. I will make sure that a hard copy of the transcription is sent to you. Please nod your head about that one too. Okay. Perfect. I love it when I can get other people to agree to do stuff.

Again, thank you very. We very much appreciate your attendance tonight. Right on.

[The committee adjourned at 8:19 p.m.]

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