

2006 Report
of the Select Standing Committee on the
Alberta Heritage Savings Trust Fund



Legislative Assembly of Alberta

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Alberta Heritage Savings Trust Fund**
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**STANDING COMMITTEE ON THE
ALBERTA HERITAGE SAVINGS TRUST FUND**

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Chair:

RON LIEPERT, MLA
Calgary-West

Deputy Chair:

GEORGE ROGERS, MLA
Leduc-Beaumont-Devon

Members:

WAYNE CAO, MLA
Calgary-Fort

HECTOR GOUDREAU, MLA
Dunvegan-Central Peace

ART JOHNSTON, MLA
Calgary-Hays

HUGH MacDONALD, MLA
Edmonton-Gold Bar

WESLYN MATHER, MLA.
Edmonton-Mill Woods

HUNG PHAM, MLA
Calgary-Montrose

LLOYD SNELGROVE, MLA
Vermilion-Lloydminster

October 2006

To the Honourable Ken Kowalski
Speaker of the Legislative Assembly
of the Province of Alberta

Dear Mr. Kowalski:

The Select Standing Committee on the Alberta Heritage Savings Trust Fund has the honour to submit its report relating to the 2005-06 fiscal year.

Sincerely,

[Original signed by Chair]

Ron Liepert, MLA
Chair, Standing Committee on the
Alberta Heritage Savings Trust Fund

c. Dr. W.J. David McNeil
Clerk of the Legislative Assembly
of the Province of Alberta

MEMBERS

RON LIEPERT, Chair
MLA, Calgary-West (PC)

GEORGE ROGERS, Deputy Chair
MLA, Leduc-Beaumont-Devon (PC)

WAYNE CAO
MLA, Calgary-Fort (PC)

HECTOR GOUDREAU
MLA, Dunvegan-Central Peace (PC)

***ART JOHNSTON**
MLA, Calgary-Hays (PC)

HUGH MacDONALD
MLA, Edmonton-Gold Bar (Lib)

WESLYN MATHER
MLA, Edmonton-Millwoods (Lib)

HUNG PHAM
MLA, Calgary-Montrose (PC)

LLOYD SNELGROVE
MLA, Vermilion-Lloydminster (PC)

** (replaced Barry McFarland, MLA)*

TECHNICAL AND ADMINISTRATIVE SUPPORT:

Alberta Finance

Hon. Shirley McClellan	Minister
Brian Manning	Deputy Minister
Jai Parihar	Chief Investment Officer, Investment Management
Douglas Stratton	Director, Fund Management
James Alder	Analyst, Fund Management
Gisele Simard	Executive Director, Financial Accounting and Standards
Dave Pappas	Senior Manager, Investment and Debt Accounting
Gail Armitage	Executive Director, Policy and Strategic Planning Operations
Bob Howard	Senior Manager, Policy and Strategic Planning
Sandie Hay	Manager, Financial Accounting and Standards
Mike Berezowsky	Public Affairs Officer, Communications

Office of the Auditor General - Audit Division

Fred Dunn	Auditor General of Alberta
Jim Hug	Assistant Auditor General
Graeme Arklie	Principal

Legislative Assembly Office

Karen Sawchuk	Committee Clerk
Rob Reynolds, Q.C.	Senior Parliamentary Counsel
Rhonda Sorensen	Communications Coordinator-Office of the Clerk
Tracey Sales	Communications Consultant-Office of the Clerk

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I. INTRODUCTION

All meetings of the Standing Committee on the Alberta Heritage Savings Trust Fund are open to the public. This report provides only the highlights from these meetings.

All committee meetings are recorded by *Alberta Hansard*, and transcripts and minutes are available in the Legislature Library. Unofficial transcripts of the public meetings are also available from the Legislature Library.

II. HISTORY OF THE ALBERTA HERITAGE SAVINGS TRUST FUND

On May 19, 1976, the Alberta Heritage Savings Trust Fund was established by an Act of the Legislative Assembly of Alberta.

The Act, and subsequent amendments to it, set out the sources of funds and how these funds may be invested. Five distinct investment divisions of the Heritage Fund were defined, each with different aims and investment criteria. The Act also outlines the powers of the Heritage Savings Trust Fund Investment Committee and the Minister of Finance (Provincial Treasurer) to make investments under each division.

It is the responsibility of the Minister of Finance, as soon as practicable after the end of the fiscal year, to prepare a report summarizing the operation of the Heritage Fund during the preceding fiscal year, including a financial statement which is audited by the Auditor General. When the report is completed, copies are provided to all Members of the Legislative Assembly and to the Clerk of the Legislative Assembly. The report is then made public. The *Alberta Heritage Savings Trust Fund 2005 Annual Report* was made public on June 29, 2005.

A new *Alberta Heritage Savings Trust Fund Act* was passed by the legislature during the 1996 Spring Session and was proclaimed on January 1, 1997. The mission statement is set out in the preamble to the *Alberta Heritage Savings Trust Fund Act*:

The mission of the Heritage Fund is to provide prudent stewardship of the savings from Alberta's non-renewable resources by providing the greatest financial returns on those savings for current and future generations of Albertans.

III. ROLE OF THE COMMITTEE

An excerpt from the *Alberta Heritage Savings Trust Fund Act* describes the mandate of the Committee as follows:

(4) The functions of the Standing Committee are

- (a) to review and approve annually the business plan for the Heritage Fund;*
- (b) to receive and review quarterly reports on the operation and results of the operation of the Heritage Fund;*
- (c) to approve the annual report of the Heritage Fund;*
- (d) to review after each fiscal year end the performance of the Heritage Fund and report to the Legislature as to whether the mission of the Heritage Fund is being fulfilled;*
- (e) to hold public meetings with Albertans on the investment activities and results of the Heritage Fund.*

The Standing Committee receives regular reports on the performance of the Fund from the Minister of Finance, as well as from the senior staff of that department who are charged with the day-to-day management of the Fund. The Standing Committee conducts an annual public meeting in different locations in the Province, the purpose of which is to update Albertans on the management of the Fund and to solicit input from Albertans on the Fund's objectives.

The Minister of Finance has responsibility for the Fund's investments. The Minister is required to report on the performance of the Fund quarterly and to make public an annual report of the Fund, including a financial statement audited by the Auditor General of Alberta.

The Minister of Finance shall for each fiscal year prepare and provide to the Treasury Board a business plan for the Heritage Fund. Upon Treasury Board approval, the Minister shall provide a copy of the approved business plan to the Standing Committee for its approval. On the Standing Committee's approval of the business plan, the Minister of Finance shall incorporate the plan into the business plan prepared by the Minister under section 13 of the *Government Accountability Act*.

Two committees, the Investment Operations Committee (IOC) and the Endowment Fund Policy Committee (EFPC) were established by Alberta Finance to add private sector financial and business oversight of the Fund's investment policies and operations. These Committees meet at least quarterly to review performance and fund management.

The Standing Committee has made every attempt to fulfill its duties as required by the Standing Orders of the Legislative Assembly of Alberta.

IV. MEETINGS HELD AND MOTIONS PASSED DURING 2005-06

Following is an excerpt of the motions passed at the 2005-06 Committee meetings, indicating that the mandate of the Committee and the mission of the Alberta Heritage Savings Trust Fund had been fulfilled:

June 14, 2005 Meeting:

MOVED by Mr. Snelgrove that the Standing Committee on the Alberta Heritage Savings Trust Fund approve the 2005 Alberta Heritage Savings Trust Fund Annual Report.

MOVED by Mr. Snelgrove that the 2005 Annual Public Meeting of the Standing Committee on the Alberta Heritage Savings Trust Fund be held in Calgary on a date to be determined during the week of October 17, 2005.

September 22, 2005 Meeting:

MOVED by Mr. Cao that the Standing Committee on the Alberta Heritage Savings Trust Fund receive the First Quarter Update 2005-06 Quarterly Report as distributed.

MOVED by Mr. Pham that the Communications Action Plan for the 2005 Annual Public Meeting of the Standing Committee on the Alberta Heritage Savings Trust Fund be adopted as circulated.

MOVED by Mr. Cao that the 2005 Report of the Standing Committee on the Alberta Heritage Savings Trust Fund be approved as presented.

February 8, 2006 Meeting:

MOVED by Mr. Goudreau that the Standing Committee on the Alberta Heritage Savings Trust Fund receive the 2005-06 Second Quarter Update Report as distributed.

MOVED by Ms Mather that the Standing Committee on the Alberta Heritage Savings Trust Fund approve the 2006-09 Business Plan as circulated.

V. 2005 ANNUAL PUBLIC MEETING

The Standing Committee on the Alberta Heritage Savings Trust Fund held a public meeting in Calgary on Tuesday, October 18th, 2005. The meeting was held to inform Albertans of the activities and results of the Heritage Savings Trust Fund, in accordance with the Committee's mandate.

The meeting was chaired by Mr. Ron Liepert, MLA for Calgary-West and Chair of the Committee, and was attended by Members of the Committee, as well as senior staff from the Department of Finance. Staff from *Alberta Hansard* were in attendance to record the proceedings, and Mrs. Karen Sawchuk, Committee Clerk and Ms Rhonda Sorensen, Communications Coordinator, also accompanied the Committee.

The meeting opened with an official welcome and a brief statement by Mr. Liepert, outlining the purpose of the public meeting and additional comments were made by Committee Members Mr. George Rogers, Mr. Barry McFarland, Mr. Hugh MacDonald, Mr. Hector Goudreau, and Mr. Lloyd Snelgrove. The staff of Alberta Finance explained the Fund's history and mandate, and its financial performance. The Chair and Members, as well as the department staff, responded to questions.

VI. SCHEDULE OF ANNUAL PUBLIC MEETINGS 2000 - 2006

Meeting Date	Location
March 16, 2000	Red Deer (held for 1999)
March 23, 2000	Grande Prairie (held for 1999)
October 30, 2000	Fort Saskatchewan
November 8, 2001	Whitecourt
November 7, 2002	Olds
November 5, 2003	Grande Prairie
October 5, 2004	Redwater
October 18, 2005	Calgary
November 1, 2006	<i>Scheduled for Vermilion</i>

VII. FINANCIAL RESULTS FOR 2005-06

The results for 2005-06 are based on the format outlined in the 2006-09 business plan. The two goals outlined in the business plan are:

GOAL 1: Preserve the real value of assets.

GOAL 2: Achieve budgeted cumulative income forecasts during a 5-year planning horizon.

The highlights of the financial results for 2005-06 are contained in *The Year in Review*, an excerpt from the *Alberta Heritage Savings Trust Fund Annual Report 2005* (Appendix I).

VIII. CLOSING REMARKS

The Committee appreciates the technical support provided by the Minister and staff of Alberta Finance, as well as the Auditor General and staff from his office. The Committee also acknowledges the support provided by the Committee Clerk, Senior Parliamentary Counsel, and the Communications Coordinator and Communications Consultant from the Legislative Assembly Office.

The Year in Review

(April 1, 2005 to March 31, 2006)

MARKET SUMMARY

The Canadian stock market posted very strong returns this year. Oil prices increased to record levels, and as a result, the energy sector in the S&P/TSX Composite Index increased by 51.0% during the year ending March 31, 2006. Overall, the Canadian stock market, represented by the S&P/TSX Index, increased by 28.4% this year compared to 13.9% the previous year.

The Canadian dollar continued to strengthen against world currencies such as the euro, yen, pound and U.S. dollar. Federal Government surpluses, rising oil prices, robust growth forecasts and expectations of higher interest rates helped fuel the increase in value of the Canadian dollar. At March 31, 2006, one U.S. dollar purchased \$1.17 Canadian compared to \$1.21 at March 31, 2005. As a result, the value of the Fund's U.S. equity investments decreased when translated into Canadian dollars, resulting in lower investment income.

The S&P 1500 Index, which tracks the performance of the top 1,500 American companies, increased by 13.0% over the year in U.S. dollars, compared to 7.2% the previous year. In Canadian dollars, the increase in the S&P 1500 Index was lower at 9.1% compared to negative 1.0% the previous year. Currency movements had a negative impact, pulling returns from U.S. investments down when translated into Canadian dollars.

Overall, non-North American markets had healthy returns in 2005-06. The Morgan Stanley Capital International Index for Europe, Australasia, and the Far East, (MSCI EAFE Index), measures the performance of approximately 1,200 companies on 25 stock exchanges around the world. The index increased by 20.0% in Canadian dollars compared to 6.2% the previous year. Growth in demand from China continues to be strong, keeping commodity prices firm.

Major Indices

Year Ended March 31, 2006

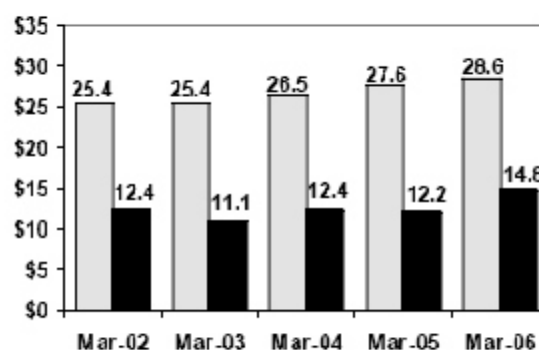
	2006 %	2005 %
Stock Markets		
Canadian		
S&P/TSX Index	28.4	13.9
United States		
S&P 1500 Index (US \$)	13.0	7.2
S&P 1500 Index (Cdn \$)	9.1	(1.0)
Non North American		
MSCI EAFE Index (Cdn \$)	20.0	6.2
Canadian Bond Market		
SC Bond Universe Index	4.9	5.0

NET ASSETS AND TRANSFERS TO THE GENERAL REVENUE FUND (GRF)

Net assets represents the difference between the value of assets held by the Fund and its liabilities. At March 31, 2006, the Fund's net assets at fair value totalled \$14.8 billion (cost: \$13.5 billion), up \$2.6 billion from \$12.2 billion (cost: \$11.4 billion) at the end of the previous year. Since 1976, total transfers to the GRF increased to approximately \$28.6 billion.

Net Assets and Transfers to the GRF since 1976

(billions)



□ Transfers to GRF since 1976 ■ Fair Value of Net Assets

