

Standing Committee on the Alberta Heritage Savings Trust Fund

2011/2012 Report

Covering Activities related to the
2011-2012 Fiscal Year



COMMITTEES
OF THE LEGISLATIVE ASSEMBLY

**Standing Committee on the
Alberta Heritage Savings Trust Fund**
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**STANDING COMMITTEE ON THE
ALBERTA HERITAGE SAVINGS TRUST FUND**

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DEPUTY CHAIR:

MARY ANNE JABLONSKI, MLA

MEMBERS:

ROB ANDERSON, MLA

RON CASEY, MLA

DAVID C. DORWARD, MLA

DAVID EGGEN, MLA

MAUREEN KUBINEC, MLA

PETER SANDHU, MLA

RAJ SHERMAN, MLA

September 2012

Honourable Gene Zwozdesky
Speaker of the Legislative Assembly
of the Province of Alberta

Dear Speaker Zwozdesky:

The Standing Committee on the Alberta Heritage Savings Trust Fund has the honour to submit its report covering activities related to the 2011-2012 fiscal year.

Sincerely,

[Original signed by Chair]

Dave Quest, MLA
Chair, Standing Committee on the
Alberta Heritage Savings Trust Fund

CURRENT MEMBERS (28th Legislature)

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MLA, Edmonton-Gold Bar (PC)

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MLA, Banff-Cochrane (PC)

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MLA, Calgary-Bow (PC)

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MLA, Highwood (PC)

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HUGH MacDONALD

MLA, Edmonton-Gold Bar (AL)

DAVE QUEST

MLA, Strathcona (PC)

DR. KEVIN TAFT

MLA, Edmonton-Riverview (AL)

*was appointed to replace Heather Forsyth, MLA, Calgary-Fish Creek on October 25, 2011.

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I. INTRODUCTION

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

Committee meetings are recorded in *Alberta Hansard*, and transcripts and minutes are available in the Legislature Library. Transcripts of the meetings are also available on the Legislative Assembly of Alberta website.

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 might 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 President of Treasury Board and Minister of Finance to make investments under each division.

It is the responsibility of the President of Treasury Board and 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 Annual Report, 2011-2012*, was made public on June 28, 2012.

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

WHEREAS 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:

6 (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 Heritage Fund and conducts an annual public meeting in a different location in the province each year. The purpose of these meetings is to update Albertans on the management of the Heritage Fund and to solicit input from Albertans on the Fund's objectives.

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

The President of Treasury Board and 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 business plan to the Standing Committee for its approval. Upon the Standing Committee's approval of the business plan, the Minister shall incorporate the Heritage Fund's plan into the Government of Alberta's business plan.

The Alberta Investment Management Corporation (AIMCo), created as a provincial Crown corporation as of January 1, 2008, acts as an investment manager for investment products assigned by statute to the President of Treasury Board and Minister of Finance. AIMCo's objective is to create portfolios that match the financial goals, time frames and risk profiles of its clients' funds. AIMCo works to increase value for clients, maintain high standards of governance and oversight and be cost effective. In addition to the Alberta Heritage Savings Trust Fund AIMCo also manages the assets of Alberta's pension plans, government endowment funds and select assets of other provincial public-sector bodies.

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 IN SUPPORT OF THE 2011-2012 REPORTING PERIOD

The following contains excerpts of the motions passed at Standing Committee meetings held from September 19, 2011 to June 20, 2012, supporting the 2011-2012 fiscal year cycle of the Standing Committee on the Alberta Heritage Savings Trust Fund, indicating that the mandate of the committee and the mission of the Fund have been fulfilled:

September 19, 2011, Meeting:

MOVED by Mr. Quest that the Standing Committee on the Alberta Heritage Savings Trust Fund receive the 2011-2012 First Quarter Report on the Alberta Heritage Savings Trust Fund, as presented.

January 24, 2012, Meeting:

MOVED by Dr. Taft that future annual reports of the Alberta Heritage Savings Trust Fund include a reporting of the value of the Fund showing trends from the establishment of the Fund to the relevant date, adjusted for inflation and population growth.

MOVED by Mr. Allred that the Standing Committee on the Alberta Heritage Savings Trust Fund receive the 2011-2012 Second Quarter Report on the Alberta Heritage Savings Trust Fund as presented.

MOVED by Dr. Taft that the Standing Committee on the Alberta Heritage Savings Trust Fund approve the 2012-15 Business Plan as circulated.

June 20, 2012, Meeting:

MOVED by Mr. Dorward that the Standing Committee on the Alberta Heritage Savings Trust Fund receive the 2011-2012 Third Quarter Report on the Alberta Heritage Savings Trust Fund, as presented.

MOVED by Ms Kubinec that the Standing Committee on the Alberta Heritage Savings Trust Fund approve the 2011-12 Alberta Heritage Savings Trust Fund Annual Report, as revised with the change of the word "first" to the word "second" on page 6, third paragraph.

MOVED by Mr. Anderson that the 2012 Annual Public Meeting of the Standing Committee on the Alberta Heritage Savings Trust Fund be held in Edmonton in October 2012.

V. 2011 ANNUAL PUBLIC MEETING

Part of the mandate of the Standing Committee on the Alberta Heritage Savings Trust Fund is to hold a regular public meeting, which took place in Edmonton on October 20, 2011. The meeting was held to inform Albertans of the activities and financial results of the Alberta Heritage Savings Trust Fund, in accordance with the committee's mandate.

The committee had been actively seeking ways to use technology to make the town hall-style meetings more accessible to all Albertans. In 2010, the committee took the step of having the public meeting televised (including a live online video-stream) throughout the province. In 2011, the committee took an additional step by inviting remote viewers to ask questions and participate directly in the meeting. Broader participation was accommodated by not only televising the meeting, but also by making an online chat feature available to those who were viewing the live online video-stream of the meeting.

Successfully incorporating this technology in an off-site committee meeting required the services and expertise of multiple branches of the Legislative Assembly Office and outside contractors. In their roles as presenters and panellists, several representatives from Alberta Treasury Board and Finance [formerly Alberta Finance and Enterprise] and the Alberta Investment Management Corporation [AIMCo] were also involved in the advance preparations for the meeting. The chat function was added using a channel and online software available through Live Stream. The video recorded by Shaw was streamed live onto a channel provided by Live Stream that was linked to the Legislative Assembly website. The Chair was able to take questions from members of the public who were attending the meeting in person, as well as from online participants.

In total the public meeting attracted over 20 attendees, 40 online participants, and some 5,000 television viewers. From a technical perspective, both the telecast and the addition of the live chat to the online video-stream, were successful. The committee will review the overall results of the October 2011 public meeting and determine whether or not similar use of technology should be recommended for future public meetings.

Standing Committee on the Alberta Heritage Savings Trust Fund Members in attendance:

Janis Tarchuk, MLA, Banff-Cochrane (PC), Chair
Doug Elniski, MLA, Edmonton-Calder (PC), Deputy Chair
George Groeneveld, MLA, Highwood (PC)
Art Johnston, MLA, Calgary-Hays (PC)
Hugh MacDonald, MLA, Edmonton-Gold Bar (AL)
Dave Quest, MLA, Strathcona (PC)
Kevin Taft, MLA, Edmonton-Riverview (AL)
David Xiao, MLA, Edmonton-McClung (PC)*
*substitution for Alana DeLong, MLA, Calgary-Bow (PC)

Department of Treasury Board and Finance Participants:

Rod Matheson, Assistant Deputy Minister, Treasury and Risk Management
Aaron Brown, Director, Portfolio Management

Alberta Investment Management Corporation (AIMCo) Participants:

Leo de Bever, Chief Executive Officer and Chief Investment Officer
Pine Pienaar, Senior Vice-President of Client Relations

For *Hansard* transcripts of the public meeting's proceedings, please refer to:
www.assembly.ab.ca/committees/ABHeritageTrustFund.

VI. SCHEDULE OF ANNUAL PUBLIC MEETINGS 2000-2011

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 7, 2001	Whitecourt
November 7, 2002	Olds
November 5, 2003	Grande Prairie
October 5, 2004	Redwater
October 18, 2005	Calgary
November 2, 2006	Vermilion
October 10, 2007	Red Deer
October 16, 2008	Edmonton
September 24, 2009	Calgary
October 20, 2010	Lethbridge
October 20, 2011	Edmonton

VII. FINANCIAL RESULTS FOR 2011-2012

The financial results for 2011-2012 are measured against the goals set out in the 2011-2014 Heritage Fund Business Plan:

GOAL 1: Long-term returns are maximized at a prudent level of risk.

GOAL 2: Ensure the Heritage Fund aligns with the fiscal goals of the province.

The Alberta Heritage Savings Trust Fund posted a return of 8.2% for the year ending March 31, 2012. The market value of the fund was \$16.1 billion at year end. The Fund's positive performance was mainly due to strong returns from interest-bearing securities, global equities and alternative investments like real estate. The real estate portfolio posted a strong 22.4% return for the year. As a result, the fund recorded net income of \$798 million for the year. Of the income recorded, \$344 million was transferred to the General Revenue Fund to support Alberta's spending priorities, such as health care, education and infrastructure. The remaining \$454 million was retained in the Fund for inflation proofing.

Highlights of the financial results for 2011-2012 are contained in *The Year in Review*, an excerpt from the *Alberta Heritage Savings Trust Fund Annual Report, 2011-2012* (see Appendix I).

Appendix I

Excerpt from the Alberta Heritage Savings Trust Fund 2011-2012 Annual Report

The 2011-12 Year in Review

The Fund earned net investment income of \$798 million for the year ended March 31, 2012. Of the total net income earned this fiscal year, \$454 million was retained in the Fund to protect it from inflation. The remaining, \$344 million was transferred to the General Revenue Fund.

The actual net income for the year was less than the budgeted income by \$172 million, which was primarily due to weaker than expected equity market returns. The 2011-14 Alberta Heritage Saving Trust Fund Business Plan forecasted Income of \$970 million after expenses of \$80 million. The business plan also forecasted transfers to the GRF of \$631 million and \$339 million to be retained in the Fund for inflation proofing. .

As of March 31, 2012 the Fund had a total net asset fair value of \$16.1 billion, while the fund's value at cost was \$14.7 billion. Of the total fair value, 52.9 per cent or \$8.7 billion was invested in Equities, 22.3 per cent or \$3.7 billion was invested in Fixed Income and lastly 24.8 per cent or \$4.1 billion was invested in Inflation-sensitive or Alternative assets.

The table below summarizes the overall change in the net assets of the Fund.

CHANGES IN NET ASSETS (in millions)	Budget	Actual for the year ended March 31,	
		2012	2011
Investment income	\$ 1,050	\$ 897	\$ 1,152
Investment expenses	(80)	(99)	(72)
Net Income	970	798	1,080
Transfers to the GRF	(631)	(344)	(720)
Net income retained in the Fund	\$ 339	454	360
Cost of net assets, beginning of year		14,198	13,838
Cost of net assets, end of year		14,652	14,198
Accumulated unrealized gains		1,440	992
Fair Value of Net Financial Assets		\$ 16,092	\$ 15,190