

Standing Committee on the Alberta Heritage Savings Trust Fund

2012/2013 Report

Covering Activities related to the
2012-2013 Fiscal Year



COMMITTEES
OF THE LEGISLATIVE ASSEMBLY

**Standing Committee on the
Alberta Heritage Savings Trust Fund**
801 Legislature Annex
9718 - 107 Street
Edmonton, Alberta T5K 1E4
780.427.1348
committees@assembly.ab.ca



**STANDING COMMITTEE ON THE
ALBERTA HERITAGE SAVINGS TRUST FUND**

Room 801 Legislature Annex, 9718 - 107 Street
Edmonton, Alberta, T5K 1E4
Tel: 780.427.1348; Fax: 780.427.5688
email: committees@assembly.ab.ca

CHAIR:

STEPHEN KHAN, MLA

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 2013

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 2012-2013 fiscal year.

Sincerely,

(original signed by Chair)

Stephen Khan, MLA
Chair, Standing Committee on the
Alberta Heritage Savings Trust Fund

STEPHEN KHAN, Chair*

MLA, St. Albert (PC)

MARY ANNE JABLONSKI, Deputy Chair

MLA, Red Deer-North (PC)

ROB ANDERSON

MLA, Airdrie (W)

RON CASEY

MLA, Banff-Cochrane (PC)

DAVID C. DORWARD

MLA, Edmonton-Gold Bar (PC)

DAVID EGGEN

MLA, Edmonton-Calder (ND)

MAUREEN KUBINEC

MLA, Barrhead-Morinville-Westlock (PC)

PETER SANDHU

MLA, Edmonton-Manning (PC)

RAJ SHERMAN

MLA, Edmonton-Meadowlark (AL)

*was appointed to replace Dave Quest, MLA, Strathcona (PC) on March 5, 2013.

TABLE OF CONTENTS

	Page Number
I. Introduction	1
II. History of the Alberta Heritage Savings Trust Fund	1
III. Role of the Standing Committee on the Alberta Heritage Savings Trust Fund	2
IV. Meetings Held and Motions passed by the 2012-2013 Standing Committee on the Alberta Heritage Savings Trust Fund	3
V. 2012 Annual Public Meeting	4-6
VI. Schedule of Annual Public Meetings: 2000-2012	7
VII. Financial Results for 2012-2013	8

APPENDIX I

“The Year in Review” - Excerpt from the Alberta Heritage Savings Trust Fund 2012-13 Annual Report	9-12
------------------------------------------------------------------------------------------------------------	------

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 at www.assembly.ab.ca.

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, 2012-2013*, was made public on June 27, 2013.

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; **this provision was repealed on April 29, 2013 and will be noted in the 2013-2014 report.*
- (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.

In fiscal 2012-2013, the President of Treasury Board and Minister of Finance had responsibility for preparing and providing to the Treasury Board a business plan for the Heritage Fund. Upon Treasury Board approval, the Minister provided 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 incorporated 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 2012-2013 REPORTING PERIOD

The following contains excerpts of the motions passed at Standing Committee meetings held from September 6, 2012 to June 20, 2013, supporting the 2012-2013 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 6, 2012, Meeting:

MOVED by Mrs. Jablonski that the Standing Committee on the Alberta Heritage Savings Trust Fund receive the 2012-2013 First Quarter Report on the Alberta Heritage Savings Trust Fund, as presented.

February 21, 2013, Meeting:

MOVED by Mrs. Jablonski that the Standing Committee on the Alberta Heritage Savings Trust Fund receive the 2012-2013 Second Quarter Report on the Alberta Heritage Savings Trust Fund as presented.

MOVED by Mr. Sandhu that the Standing Committee on the Alberta Heritage Savings Trust Fund receive the 2012-2013 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 2013-2016 Business Plan as revised with the removal with of the “s” on the heading “Goals” and the removal of “One” in the heading “Goal One”.

MOVED by Mr. Sandhu that the 2013 public meeting of the Standing Committee on the Alberta Heritage Savings Trust Fund be held in Edmonton at the Oasis Conference Centre, on a date yet to be determined.

June 20, 2013, Meeting:

MOVED by Mr. Dorward that the Standing Committee on the Alberta Heritage Savings Trust Fund approve the 2012-2013 Alberta Heritage Savings Trust Fund annual report as circulated.

Recorded Vote for the Motion: Mr. Dorward, Mr. Goudreau, Mrs. Jablonski, Kubinec
Recorded Vote against the Motion: Mr. Anderson, Mr. Eggen, Dr. Sherman

V. 2012 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 at the Oasis Centre in Edmonton, Alberta on October 3, 2012. 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.

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

Dave Quest, MLA, Chair	Mary Anne Jablonski, MLA, Deputy Chair
Rob Anderson, MLA	Ron Casey, MLA
David C. Dorward, MLA	David Eggen, MLA
Maureen Kubinec, MLA	Peter Sandhu, MLA
Raj Sherman, MLA	

Department of Treasury Board and Finance Participants:

Mr. Rod Matheson, Assistant Deputy Minister, Treasury and Risk Management
Mr. Rod Babineau, Manager, Portfolio Analysis, Capital Markets

Alberta Investment Management Corporation (AIMCo) Participants:

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

The 2012 public meeting again featured multiple ways for Albertans to get to know their fund, including attendance at the public meeting, watching the broadcast on Shaw TV or viewing the stream online, or participating in the question-and-answer session following the presentation through online chat. New in 2012 was the addition of a short online questionnaire.

The approach undertaken to promote the public meeting involved both conventional and new media including, print, online and television advertising; media relations; and social media postings on Facebook and Twitter. As always the committee promoted the meeting to all Members, and in 2012 MLAs were sent an e-card invitation to forward to constituents.

In 2012 the public meeting reached more Albertans than ever before. The statistics below provide measurement of the success of the 2012 strategies and provide a base for future planning.

TV viewership: 16,000 (as compared to 5,000 in 2011). The increase in viewership might have been due to the Alberta Government's broad review of the province's finances, which took place in late 2012.

In-house audience: approximately 25 (as compared to 20 in 2011)

- Audience size was consistent with average turnout over the past five years
- Participation: nine questions/comments were posed by five members of the public
- 10 questionnaires were returned. Forty per cent of those who attended the meeting in person said that they saw the advertisement in the paper and 30 per cent said that they heard about the meeting through their MLA. See the full survey summary below.

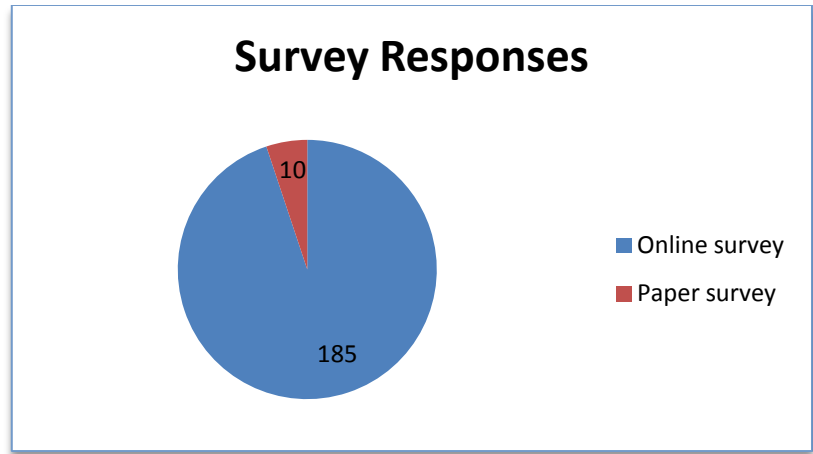
Online participation: approximately 33 (as compared to 43 in 2011)

- Online viewership: approximately 33 at height (about 30 minutes into the meeting)
- Chat participants: 14 participants generated 52 messages
- Online questionnaires: 185 (36 per cent of the online respondents said they heard about the meeting through social media. TV was second at 19 per cent).

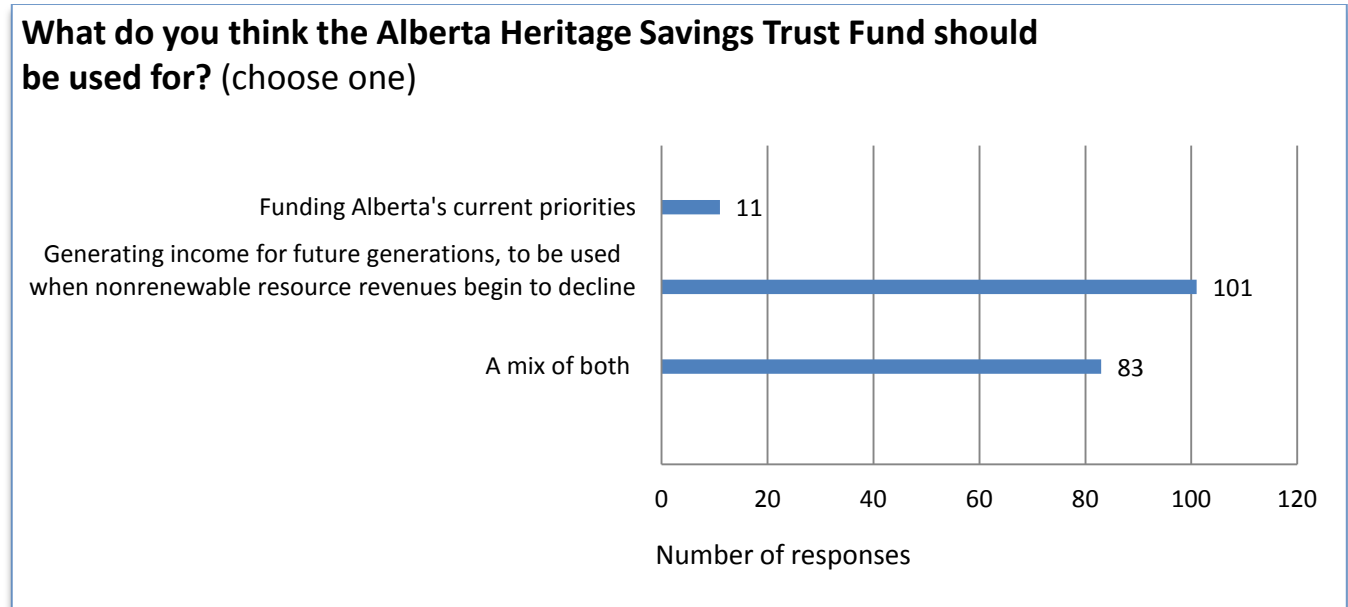
Alberta Heritage Savings Trust Fund Public Meeting Survey Results

A public meeting was hosted by the Standing Committee on the Alberta Heritage Savings Trust Fund in Edmonton on October 3, 2012. The results below represent feedback gathered from the meeting participants and those who answered the online survey.

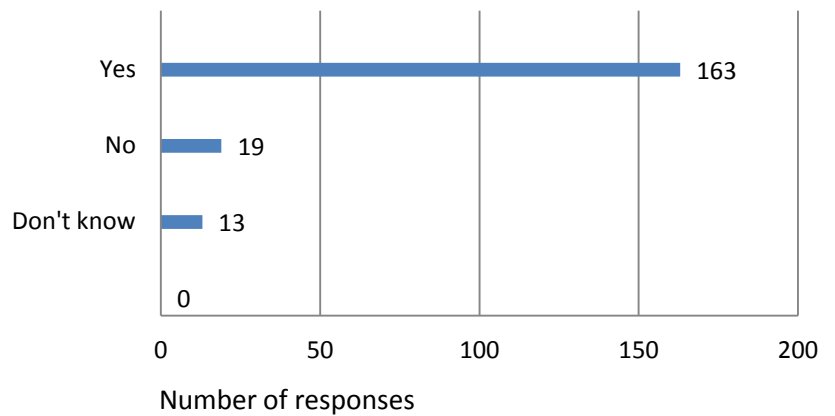
Summary Document



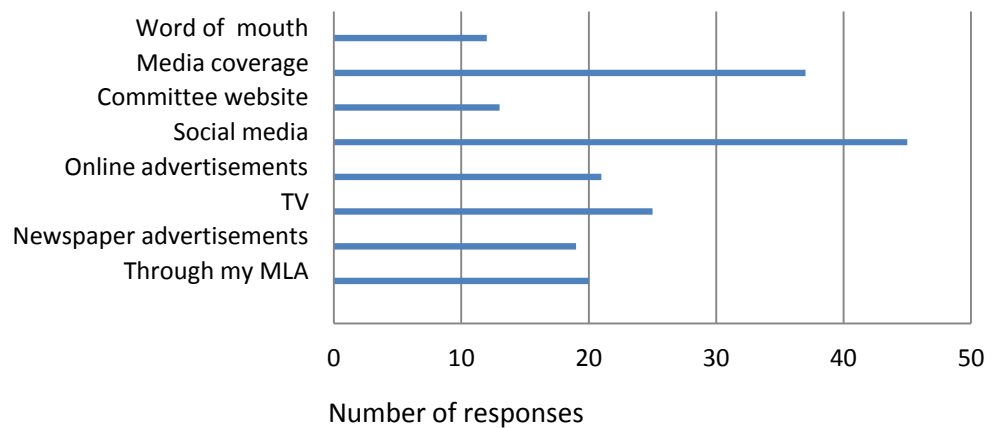
Note: The paper surveys were handed out at the public meeting. Of the 20 handed out, only 10 were returned. The online survey was accessible through the committee website and collected 185 responses.



Should the government deposit money into the Alberta Heritage Savings Trust Fund on a regular basis to help it grow faster?



How did you hear about the 2012 public meeting?



VI. SCHEDULE OF ANNUAL PUBLIC MEETINGS 2000-2012

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
October 3, 2012	Edmonton

VII. FINANCIAL RESULTS FOR 2012-2013

The financial results for 2012-2013 were measured against the goal set out in the 2012-2015 Heritage Fund Business Plan:

GOAL 1: Maximize long-term returns 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 11.6% for the year ending March 31, 2013. The market value of the fund was \$16.8 billion at year end. The Fund's positive performance was mainly due to strong returns from global equities and alternative investments like real estate. The global equity portfolio returned 14.8% for the year. As a result, the fund recorded net income of \$1.5 billion in gross income for the year. Of the income recorded, \$1,155 million was transferred to the General Revenue Fund to support Alberta's spending priorities, such as health care, education and infrastructure. There was \$161 million retained in the Fund for inflation proofing.

Highlights of the financial results for 2012-2013 are contained in *The Year in Review*, an excerpt from the *Alberta Heritage Savings Trust Fund Annual Report, 2012-2013* (see Appendix I).

THE 2012-13 YEAR IN REVIEW

The fiscal year 2012-13 was eventful for investors with alternating bouts of optimism and pessimism. Gains in the equity markets led to strong performance in global portfolios.

The Eurozone recession and a slowdown in emerging markets weighed on the global economy in 2012. Global growth moderated for the second straight year to 3.2 per cent.

The debt crisis in Europe took an economic toll in 2012. The Eurozone fell into recession and the region's unemployment rate reached its highest level on record. The European Central Bank moved to avert the crisis by committing to unlimited purchases of member states' bonds and has recently signaled its intent to reopen the credit channel to small enterprises. Despite these actions, the Eurozone continues to stumble, with real gross domestic product shrinking for the sixth straight quarter in the first quarter of 2013.

Chinese economic growth slowed to 7.8 per cent in 2012, its lowest annual rate in over a decade. The recession in Europe and tepid growth in other advanced economies negatively impacted China's export sector.

In the U.S., uncertainty over the 'fiscal cliff' restrained economic activity last year. A fiscal deal reached January 1, 2013 removed some of the tax uncertainty, although disagreement over spending led to 'sequestration' cuts starting in March 2013. So far, the U.S. economy appears to be weathering through increased fiscal drag, with improvements in the housing and labour markets playing a role. Economic growth improved to 2.4 per cent in the first quarter of 2013 despite a large reduction in government spending.

Japan's economy bounced back last year, posting two per cent growth. The newly elected government has adopted a more aggressive monetary policy aimed at ending deflation and kick starting the long struggling economy. The new policy resulted in an impressive rally in Japanese equity markets and a sharp depreciation of the Yen through the first quarter of 2013.

Canadian economic growth softened to 1.7 per cent in 2012, hampered by weak export growth and smaller gains in consumer spending. Housing investment, which had been a major driver of national growth, has decelerated for four straight quarters. The Canadian economy was also negatively affected by the terms of trade shock caused by wider oil price differentials. Growth improved in the first quarter of 2013, as a jump in exports overcame weakness in consumer and investment spending.

During fiscal year 2012-13, the U.S. equity markets performed strongly, bolstered by a mitigation of the country's fiscal issues and resilient non-U.S. earnings, with the S&P 500 Index ending the fiscal year up close to 16 per cent in C\$ terms. Canadian stocks had a weaker performance over the same period, climbing by 6.1 per cent. European equity indices performed remarkably well in the latter part of

2012 following an exceptional provision of backstop measures by the European Central Bank, but were hampered in the first quarter of 2013 by instability brought about by Cyprus and the Italian elections. They still ended the period with a return of 8.9 per cent.

Monetary easing from central banks and continued safe-haven demand have combined to keep interest rates in developed countries well below historical averages. For instance, 10 year Government of Canada yields dropped from around 2.1 per cent at the beginning of the year to around 1.8 per cent at the end of the year. The continued low interest rate environment led investors to seek out lower credit quality, higher yielding investments which led to further compression in credit spreads during the year. The combination of lower government rates and tighter credit spreads had a positive impact on fixed income returns, with the Canadian diversified fixed income index posting a return of 4.5 per cent. This trend was similar in other developed nations.

Global economic growth uncertainties weighed negatively on commodity prices, as demonstrated by the broad-based Commodity Research Bureau Commodities Index which declined by 1.8 per cent. The North American crude oil benchmark West Texas Intermediate (WTI) ended the fiscal year at US\$97.49/bbl, down 6.5 per cent from a year earlier. Natural gas experienced a strong year being up 89 per cent over the same period to reach US\$4.02, while gold prices fell by 4.3 per cent year-over-year.

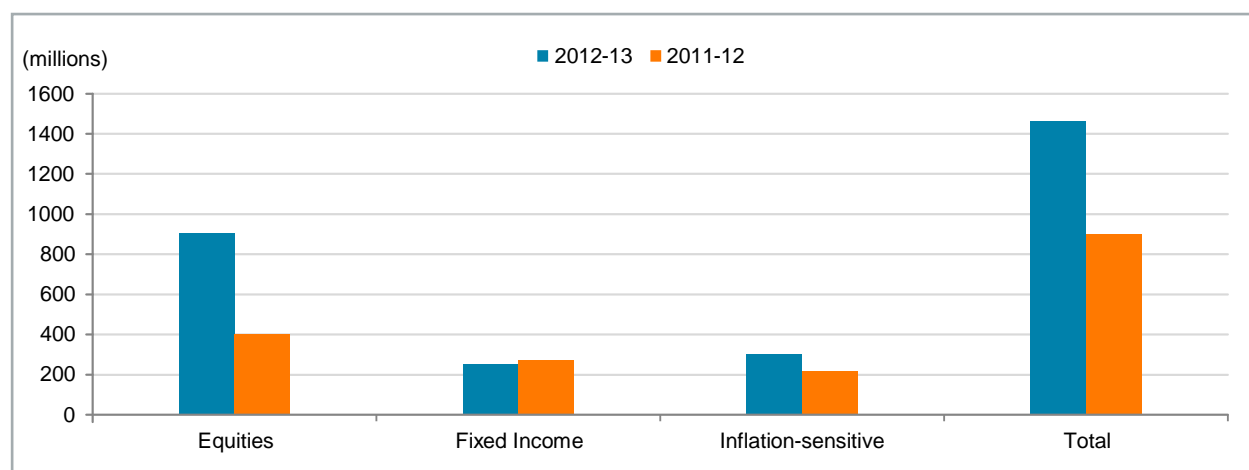
Finally, in currency markets, the U.S. dollar measured against a basket of international currencies (the DXY Index) appreciated by 5.1 per cent over the latest fiscal year. The Canadian dollar weakened by 1.7 per cent during the same period versus the U.S. dollar, caused by concerns regarding prices obtained for energy exports. The Euro fell by 2.2 per cent against the U.S. dollar while the Japanese yen lost about 12 per cent versus U.S. dollar – effectively helping Japanese exporters to gain competitiveness, one of the pillars of the Japanese government's new economic policy.

INVESTMENT INCOME

The Heritage Fund earned gross investment income of \$1,464 million for the year ended March 31, 2013, an increase of \$567 million over 2011-12. Expense for the year came in at \$148 million, and the net investment income for the year was \$1,316 million. Inflation was 1.1 per cent for the year, so the amount retained for inflation-proofing was \$161 million. The remainder of \$1,155 million was transferred to the General Revenue Fund.

The actual net income for the year was \$415 million more than the income of \$901 million projected in *Budget 2012* and \$518 million more than the previous year. The large difference was primarily due to stronger than expected equity markets during the final part of the fiscal year.

Investment Income by Asset Class

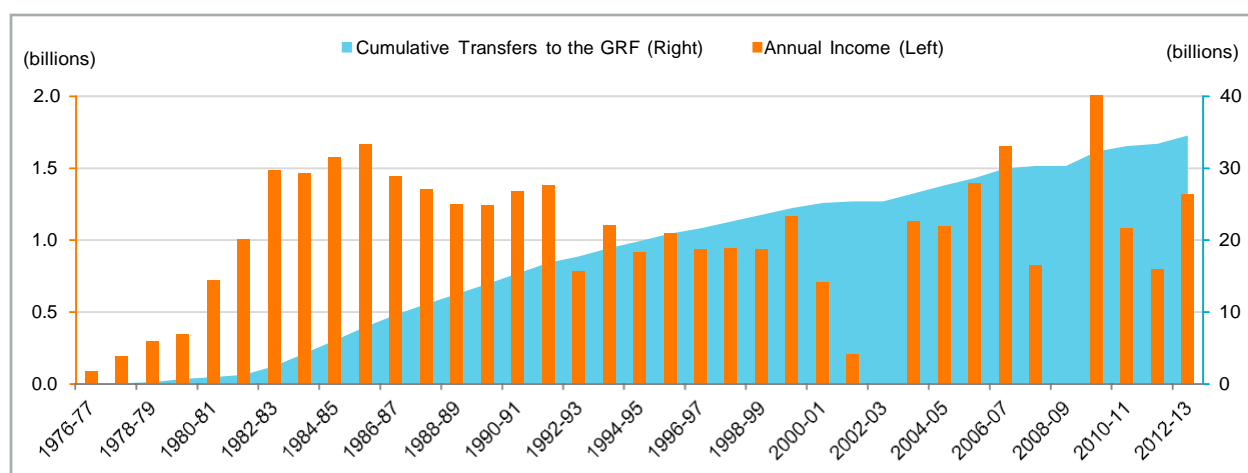


Equities were the primary contributor to earnings during the year, earning \$908 million or 61 per cent of total income earned by the Heritage Fund. This amount is more than double the \$404 million earned from equities in 2011-12. Fixed income earned \$254 million in 2012-13, a small decline from the \$275 million earned in the previous year. Inflation-sensitive and alternatives investments earned \$302 million compared to \$218 million in 2011-12.

INCOME TRANSFER AND INFLATION-PROOFING

After expenses of \$148 million and inflation-proofing of \$161 million, the remaining \$1,155 million of earned income was transferred to the General Revenue Fund. Since the Fund was established in 1976, \$31.1 billion in investment income has been transferred to the General Revenue Fund. An additional \$3.5 billion was taken from the Fund from 1976-1995, to pay for capital projects in Alberta. The Fund has supplied a total of \$34.6 billion since its formation to provide for the priorities of Albertans.

Income and Cumulative Transfer to GRF

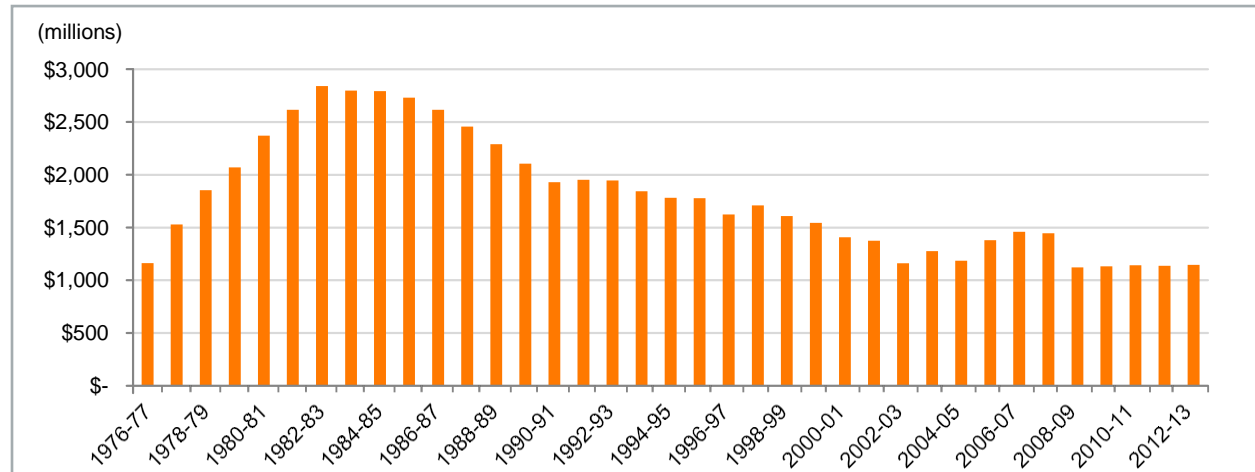


The government announced a new savings policy in Budget 2013 that includes retention of all investment income within the Fund. This policy will be phased in starting in 2014-15 and by 2016-17, all net investment income will be retained in the Fund.

Cumulative inflation since the Heritage Fund's inception has caused prices to increase almost four times from their 1976 level, meaning what cost \$1 in 1976 now costs \$4. The chart below illustrates how inflation has decreased the value of the Fund and underscores the importance of inflation-proofing. The market value per capita in real dollars reached its peak in 1983, when the Fund was worth slightly more than \$2,800 per capita in 1977 dollars. Starting in 1987, when deposits into the Fund were stopped until 2005, when deposits into the Fund resumed, the inflation-adjusted fair market value per capita value fell substantially. Since inflation-proofing resumed, the per capita value market value has stabilized. The market value per capita value on March 31, 2013 was \$1,146 per Albertan.

Market Value Inflation Adjusted Per Capita

(1977 dollars)



INVESTMENT EXPENSES

The Heritage Fund had investment expenses of \$148 million for the year, which was \$63 million more than budget and \$49 million more than the previous year. The increase from budget was due primarily to the move in the asset mix to more investments in illiquid asset classes such as real estate and infrastructure as these asset classes are more expensive to manage. Another reason for higher expenses is increased performance fees paid due to strong investment results. Performance fees are not budgeted for because they are hard to predict. Investment expenses 2012–2013 were 0.88 per cent of the total value of the Fund.

Investment Expenses

	2012-13	2011-12
Total Investment expenses	148	99
Average Fair Value of Investments	\$16,806	\$15,951
Per cent of investments at average fair value	0.88%	0.62%

