



Standing Committee on the Alberta Heritage Savings Trust Fund

2013/2014 Report

Covering Activities related to the
2013-2014 Fiscal Year
January 2015



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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CHAIR:

RON CASEY, MLA

DEPUTY CHAIR:

MARY ANNE JABLONSKI, MLA

MEMBERS:

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DREW BARNES, MLA

MIKE ELLIS, MLA

DOUG HORNER, MLA

THOMAS LUKASZUK, MLA

BRIAN MASON, MLA

RAJ SHERMAN, MLA

January 2015

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 from September 2013 to October 2014.

Sincerely,

(original signed by)

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

(Meetings held from September 9, 2013, to February 6, 2014, inclusive)

STEPHEN KHAN, Chair

MLA, St. Albert (PC)

MARY ANNE JABLONSKI, Deputy Chair

MLA, Red Deer-North (PC)

MOE AMERY***

MLA, Calgary-East (PC)

ROB ANDERSON**

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MLA, Banff-Cochrane (PC)

DAVID C. DORWARD*

MLA, Edmonton-Gold Bar (PC)

DAVID EGGEN

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MAUREEN KUBINEC

MLA, Barrhead-Morinville-Westlock (PC)

DR. RAJ SHERMAN

MLA, Edmonton-Meadowlark (AL)

*Naresh Bhardwaj, MLA, Edmonton-Ellerslie, was a substitution for David C. Dorward, MLA, on September 9, 2013

**Blake Pedersen, MLA, Medicine Hat, was a substitution for Rob Anderson, MLA, on September 9, 2013

***Moe Amery, MLA, Calgary-East, was appointed to replace Peter Sandhu, MLA, on October 29, 2013

MEMBERS (28th Legislature, 2nd Session)

(Meetings held from May 27, 2014, to October 9, 2014, inclusive)

RON CASEY, Chair

MLA, Banff-Cochrane (PC)

MARY ANNE JABLONSKI, Deputy Chair

MLA, Red Deer-North (PC)

MOE AMERY

MLA, Calgary-East (PC)

DREW BARNES

MLA, Cypress-Medicine Hat (W)

HON. DAVID C. DORWARD*****

MLA, Edmonton-Gold Bar (PC)

DAVID EGGEN****

MLA, Edmonton-Calder (ND)

HON. STEPHEN KHAN*****

MLA, St. Albert (PC)

DR. RAJ SHERMAN

MLA, Edmonton-Meadowlark (AL)

Vacant***

- * Maureen Kubinec, MLA, Barrhead-Morinville-Westlock, was a substitution for Stephen Khan, MLA, on June 19, 2014
- ** Cathy Olesen, MLA, Sherwood Park, was a substitution for David C. Dorward, MLA, on June 19, 2014
- *** Alison M. Redford, QC, was appointed to the Committee on May 7, 2014, to replace Peter Sandhu, MLA, who was appointed on March 4, 2014. She resigned as MLA for Calgary-Elbow on August 6, 2014, leaving the Committee position vacant until the Third Session of the 28th Legislature commenced
- **** Deron Bilous, Edmonton-Beverly-Clareview was a substitution for David Eggen, MLA on September 10, 2014
- ***** Dave Quest, MLA, was a substitution for Hon. Stephen Khan on October 9, 2014
- ***** George VanderBurg, MLA, was a substitute for Hon. David C. Dorward on October 9, 2014

TABLE OF CONTENTS

| | Page Number |
|--|-------------|
| I. Introduction | 1 |
| II. History of the Alberta Heritage Savings Trust Fund | 1 |
| III. Role of the Committee | 2 |
| IV. Meetings Held and Motions passed by the Standing Committee on the Alberta Heritage Savings Trust Fund | 3 |
| V. 2013 and 2014 Annual Public Meetings | 4 |
| VI. Schedule of Annual Public Meetings: 2000-2014 | 8 |
| VII. Financial Results for 2013-2014 | 9 |

APPENDIX I

| | |
|--|----|
| “The Year in Review”—Excerpt from the Alberta Heritage Savings Trust Fund 2013-14 Annual Report | 10 |
|--|----|

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. All Legislative Assembly Committee meetings are audio-streamed live on the internet and archived. These archives as well as transcripts are 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. 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.

A new *Alberta Heritage Savings Trust Fund Act* was passed by the Legislative Assembly in 1996 and was proclaimed into force 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.

It is the responsibility of the President of Treasury Board and Minister of Finance, within 90 days of 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, it must be approved by the Standing Committee on the Alberta Heritage Savings Trust Fund. Copies are provided to all Members of the Legislative Assembly and to the Clerk of the Legislative Assembly, making the report public.

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 *Savings Management Act* came into force on April 1, 2014. It created the Social Innovation Endowment and the Agriculture and Food Innovation Endowment. It also enhanced the Alberta Heritage Scholarship Fund to support Alberta's apprentices and established the Alberta Future Fund, which will provide the government with the financial resources to take advantage of new opportunities in the future.

The new innovation endowments, the enhancement to the Alberta Heritage Scholarship Fund and the new Alberta Future Fund will be capitalized by reallocating a portion of the existing assets of the Alberta Heritage Savings Trust Fund. The new endowments and the Alberta Future Fund will exist as accounts within the Heritage Fund and will be managed according to the Heritage Fund's investment policy.

The new endowments and accounts will be allocated funds as follows:

- Social Innovation Endowment: \$500 million (2014-15) and \$500 million (2015-16);
- Agriculture and Food Innovation Endowment: \$200 million (2014-15);
- Alberta Heritage Scholarship Fund: \$200 million (2014-15); and
- Alberta Future Fund: \$200 million (2014) and \$200 million in each of the following nine years, for a total of \$2 billion.

Savings will continue to grow since, apart from the legislatively authorized disbursements from the new accounts, the net income of the Alberta Heritage Savings Trust Fund will be fully retained in the Fund by 2017-18, subject to the provisions of the *Fiscal Management Act*.

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) *repealed (April 2013)*;
- (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 the province. 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 on the Fund, after it is approved by the Standing Committee. The annual report includes a financial statement audited by the Auditor General of Alberta. The Alberta Heritage Savings Trust Fund Annual Report, 2012-2013 was made public on June 27, 2013, and the 2013-2014 annual report was made public on June 24, 2014.

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 2013-2014 REPORTING PERIOD

The following includes motions passed at Standing Committee meetings held from September 9, 2013 to September 10, 2014, supporting the 2013-2014 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 9, 2013, Meeting:

MOVED by Mr. Bhardwaj that the Standing Committee on the Alberta Heritage Savings Trust Fund receive the 2013-2014 First Quarter Report on the Alberta Heritage Savings Trust Fund, as circulated.

MOVED by Mr. Casey that the Standing Committee on the Alberta Heritage Savings Trust Fund approve the draft report of the Standing Committee on the Alberta Heritage Savings Trust Fund Covering Activities Related to the 2012-2013 Fiscal Year, as circulated.

February 6, 2014, Meeting:

MOVED by Mrs. Kubinec that the Standing Committee on the Alberta Heritage Savings Trust Fund receive the 2013-2014 Second Quarter Report on the Alberta Heritage Savings Trust Fund as presented.

MOVED by Mrs. Jablonski that the 2014 public meeting of the Standing Committee on the Alberta Heritage Savings Trust Fund be held in Edmonton at a location and date to be determined.

May 27, 2014, Meeting:

MOVED by Mr. Dorward that the Standing Committee on the Alberta Heritage Savings Trust Fund receive the 2013-2014 Third Quarter Report on the Alberta Heritage Savings Trust Fund.

June 19, 2014, Meeting:

MOVED by Mr. Eggen that the Standing Committee on the Alberta Heritage Savings Trust Fund approve the 2013-2014 Alberta Heritage Savings Trust Fund Annual Report as presented.

September 10, 2014, Meeting:

MOVED by Mr. Barnes that the Standing Committee on the Alberta Heritage Savings Trust Fund receive the 2014-2015 First Quarter Report on the Alberta Heritage Savings Trust Fund.

V. 2013 AND 2014 ANNUAL PUBLIC MEETINGS

Part of the mandate of the Standing Committee on the Alberta Heritage Savings Trust Fund is to hold meetings to inform Albertans of the activities and financial results of the Alberta Heritage Savings Trust Fund, in accordance with the Committee's mandate.

2013 PUBLIC MEETING

The 2013 public meeting took place at the Oasis Centre in Edmonton, Alberta on October 2, 2013.

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

| | |
|--------------------------|--|
| Stephen Khan, MLA, Chair | Mary Anne Jablonski, MLA, Deputy Chair |
| Rob Anderson, MLA | Maureen Kubinec, MLA |
| Ron Casey, MLA | Peter Sandhu, MLA |
| David C. Dorward, MLA | Dr. Raj Sherman, MLA |
| David Eggen, MLA | |

Department of Treasury Board and Finance Participants:

Mr. Lowell Epp, Executive Director, Capital Markets
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. Darren Baccus, Associate General Legal Counsel

The goal of the 2013 communications plan was to further Albertans' knowledge of the Fund by creating educational opportunities. This education component was fulfilled through the educational video, which was presented at the public meeting and featured in abbreviated form on YouTube, and through the sharing of Heritage Fund trivia, posted on social media leading up to the meeting.

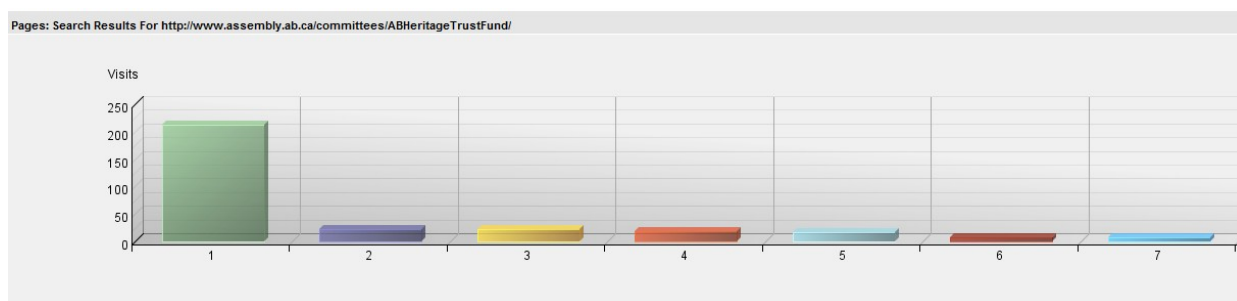
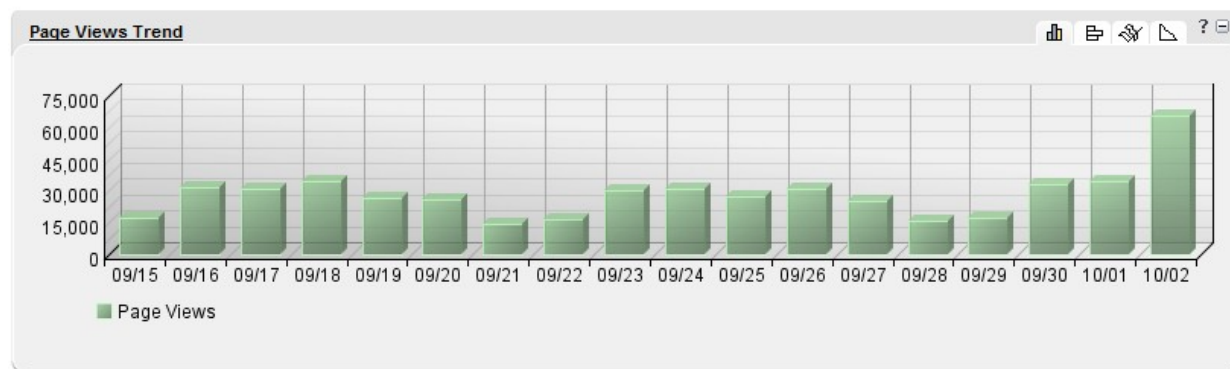
The public meeting was once again broadcast live on Shaw TV and webcast online. The broadcast reached over 7,000 Albertans.

Media Coverage following the 2013 AHSTF Public Meeting:

- *Edmonton Sun*
- *St. Albert Leader*
- *Grande Prairie Daily Herald-Tribune*
- City TV
- Global: streamed meeting online and provided media coverage following meeting
- Rebroadcast on Shaw

Online Statistics:

- Peak webcast viewership during the public meeting: 40
- Twitter questions submitted: 9/comments: 30
- Livestream chat questions submitted: 4/comments 3
- AHSTF Committee website activity on October 2, 2013
 - Activity peaked with over 60,000 page views and 200 visits on October 2, the day of the public meeting, as the following tables illustrate:



Five-Year Comparison of Public Meeting Audience Reach

| | 2013 | 2012 | 2011 | 2010 | 2009 |
|-------------------------------|-------|--------|-------|-------|------|
| Television | 7,000 | 16,000 | 5,000 | 6,000 | n/a |
| Online | 40 | 33 | 43 | n/a | n/a |
| In person | 33 | 25 | 20 | 2 | 46 |
| Total public meeting audience | 7,073 | 16,058 | 5,063 | 6,002 | 46 |

Highlights of Audience Feedback (12 surveys):

1. **Traditional advertising is still a preference** of many of our in-person audience members, as indicated by the 50 per cent of respondents that reported having heard about the meeting through some form of advertising, 25 per cent of which cited newspapers as being their source and 17 per cent, television.
2. **An invite by an MLA goes a long way**, as indicated by the 33 per cent of respondents that reported having heard about the meeting through their MLA. The remainder of respondents mentioned signage and word of mouth as being responsible for providing them with notice of the meeting.

3. **Our in-person audience comprised a variety of age groups:**

- a. Almost 25 per cent were between 18 and 34
- b. Just over 33 per cent were between 35 and 55
- c. Just over 8 per cent were between 56 and 65
- d. Just over 33 per cent were 66 and over

4. **Our in-person audience came from:**

- a. St. Albert
- b. Sherwood Park
- c. Oliver and other non-specified areas of Edmonton

2014 PUBLIC MEETING

The 2014 public meeting took place at Lister Hall, University of Alberta, in Edmonton, Alberta on October 9, 2014.

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

| | |
|-----------------------|------------------------|
| Ron Casey, MLA, Chair | Dave Quest, MLA |
| Moe Amery, MLA | Dr. Raj Sherman, MLA |
| Drew Barnes, MLA | George VanderBurg, MLA |
| David Eggen, MLA | |

Department of Treasury Board and Finance Participants:

Mr. Lowell Epp, Acting Assistant Deputy Minister, Treasury and Risk Management

Alberta Investment Management Corporation (AIMCo) Participants:

Dr. Leo de Bever, Chief Executive Officer and Chief Investment Officer

Keynote Speaker:

Prof. Randall Morck, University of Alberta School of Business

The objective of the AHSTF 2014 public meeting communications plan was to provide support to the Committee in promoting the annual meeting to Albertans. By participating in the annual meeting the Committee hopes that Albertans can increase their understanding of the Heritage Fund and how its investments and proceeds are managed. Albertans should be more aware of what makes the Fund relevant today and what it means for Alberta's future.

While the Committee invites the general population to participate in the annual meeting by leveraging traditional advertising such as radio and print, additional efforts were made to target youth, i.e. post-secondary students.

As this year's meeting took place at the University of Alberta (U of A), a campaign highly focused on campus advertising was initiated but was not limited to the U of A main location. Radio and newspaper spots were ordered from the majority of post-secondary institutions across Alberta. Additionally, direct emails to student organizations and campus newspaper editors were also widely sent out wherever possible.

A new element was also added to the meeting format this year in hopes that it would attract more students to the public meeting. Respected professor Dr. Randal Morck from the U of A School of Business delivered a presentation on sovereign wealth funds and enthusiastically answered questions from the audience and the Committee members.

The Heritage Fund educational video was also updated to reflect the most recent changes to the Fund and was again presented at the public meeting. The abbreviated form of the video was posted on YouTube and promoted via social media leading up to the meeting.

Finally, a news release about the meeting was circulated to all Alberta media.

The public meeting was broadcast live on television, streamed live on the Assembly website and then rebroadcast later that evening.

The broadcast reached a total of 1,000 Albertans (Calgary and Edmonton).

Online Statistics (2014):

- Webcast viewership (desktop): 24
- Webcast viewership (mobile): 17
- Twitter questions submitted: 9/comments: 30
- Questions (in person): 7
- Questions (committee): 7
- Questions (phone, email, Twitter): 5

Five-Year Comparison of Public Meeting Audience Reach

| | 2014 | 2013 | 2012 | 2011 | 2010 |
|-------------------------------|-------|-------|--------|-------|-------|
| Television | 1,000 | 7,000 | 16,000 | 5,000 | 6,000 |
| Online | 41 | 40 | 33 | 43 | n/a |
| In person | 8 | 33 | 25 | 20 | 2 |
| Total public meeting audience | 1,049 | 7,073 | 16,058 | 5,063 | 6,002 |
| | | | | | |

Highlights of Audience Feedback (6 respondents):

Respondents heard about the public meeting from a spectrum of promotional initiatives:

- a. Through MLA – 33 per cent
- b. E-mail – 17 per cent
- c. Newspaper – 17 per cent
- d. Online – 17 per cent
- e. Company – 17 per cent

Our in-person audience comprised a variety of age groups:

- a. 33 per cent were between 26 and 34
- b. 33 per cent were between 35 and 45
- c. 17 per cent were between 46 and 55
- d. 17 per cent were 66 and over

Our in-person audience came from:

- a. Crowsnest Pass
- b. Driftpile
- c. Edmonton

VI. SCHEDULE OF ANNUAL PUBLIC MEETINGS: 2000-2014

| 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 |
| October 2, 2013 | Edmonton |
| October 9, 2014 | Edmonton |

VII. FINANCIAL RESULTS FOR 2013-2014

The financial results for 2013-2014 were measured against the goals set out in the 2013-2016 Alberta Heritage Savings Trust Fund Business Plan:

GOAL: Maximize long-term returns at a prudent level of risk

The Alberta Heritage Savings Trust Fund posted a return of 16.0 per cent for the year ending March 31, 2014. The market value of the fund was \$17.5 billion at year end. The Fund's positive performance was mainly due to strong returns from global equities. The global equity portfolio returned 28.3 per cent for the year. As a result, the Fund recorded net income of \$2.1 billion in gross income for the year. Of the income recorded, \$1,916 million was transferred to the General Revenue Fund to support Alberta's spending priorities such as health care, education and infrastructure. There was \$193 million retained in the Fund for inflation proofing.

Highlights of the financial results for 2013-2014 are contained in The Year in Review, an excerpt from the Alberta Heritage Savings Trust Fund Annual Report, 2013-2014 (see Appendix I).

THE 2013-14 YEAR IN REVIEW

Last year was a turning point in the global recovery, with most advanced economies finally starting to pull away from the stagnation that has typified the recovery from the 2008-09 recession. The US powered through the lingering fallout from the early 2013 “fiscal cliff”, Europe achieved positive growth for the first time in six quarters, and Japan employed radical monetary and fiscal stimulus to escape from nearly 20 years of deflation and stagnant growth.

The US economy was able to shrug off the effects of fiscal drag, but it couldn't escape the forces of Mother Nature. Despite tax increases and spending cuts that took effect in early 2013 and a partial government shutdown in October, the US economy grew at an annual rate of 3.1 per cent on average over the last three quarters of 2013. However, this strength did not continue into the first quarter of 2014 as exceptionally cold winter weather disrupted transportation and kept consumers at home. These effects are expected to be temporary and the US economy should bounce back with the arrival of spring.

The Fed has tapered asset purchases by \$10 billion per month at every meeting since December, with monthly purchases falling from \$85 billion to \$45 billion. The market reaction to the actual tapering of asset purchases has been muted compared with what transpired in May when the Fed merely suggested it would start tapering. That episode led to an increase in bond yields and caused significant dislocation in emerging economy capital markets.

This dislocation had less to do with Fed policy per se and more to do with financial vulnerabilities in many emerging market economies (EMEs). These were laid bare again in late January 2014 when a combination of weak Chinese manufacturing data, a devaluation of the Argentine peso and intervention by Turkey to support its currency, provoked the same results. These episodes saw an increase in the spread between EME and advanced economy interest rates, a depreciation of EME currencies and substantial capital outflows from emerging markets.

Like other advanced economies, Canada saw growth accelerate in the second half of 2013. However, growth has been unbalanced, occurring mostly in the western provinces and Newfoundland and Labrador. Households have provided much of the ballast for growth, with the much-anticipated rotation of demand towards exports and business non-residential investment failing to materialize. Job growth has been weak. Canada added 190,000 jobs over the fiscal year 2013-14, with just less than half added in Alberta alone.

The underlying weakness in the Canadian economy has fed through to prices. Consumer price inflation has been exceptionally weak for the past two years. This has not gone unnoticed by the Bank of Canada, which in October dropped all reference to an interest rate hike from its press materials and even went so far as to suggest a rate cut if inflation continued to stay below course. This had the effect of pushing down the Canadian dollar, which lost more than 5 cents against the US dollar. Canadian exporters should benefit from a lower dollar and a strengthening US economy. However, ongoing competitiveness challenges and weak productivity growth continue to plague the export sector.

Global equity markets saw robust returns over FY 2013-14. The S&P 500 was up 32.6 per cent on a Canadian dollar basis during the fiscal year. The TSX was not left out of the gains this time around, rising 16.0 per cent.

Surprisingly, despite a surging economy in the UK and healthy returns in European stock markets, the London FTSE was only up 5.0 per cent over the fiscal year. In bond markets, long term yields have risen globally since the Fed announcement regarding tapering in May. In Canada, GoC 5-year yields rose 40 basis points to 1.7 per cent, and 10-year yields closed out the fiscal year at 2.46 per cent, up a little over 60 basis points.

In energy markets, WTI gained 4.6 per cent to US\$101.57 bbl at the end of March. Oil prices have been elevated due to the ongoing crisis in the Ukraine, and the threat that oil supply from Russia, the world's third biggest oil producer, could be disrupted. In the summer of 2013, the spread between WTI and Brent was the lowest since the differential opened up at the end of 2010. It has since widened again finishing the fiscal year at \$6.18, down more than half from the start of the year. Despite spiking to a high of almost US\$8 MMBtu in February due to the cold winter, the Henry Hub natural gas ended the fiscal year at US\$4.37 MMBtu, up a modest 10.8 per cent year-over-year.

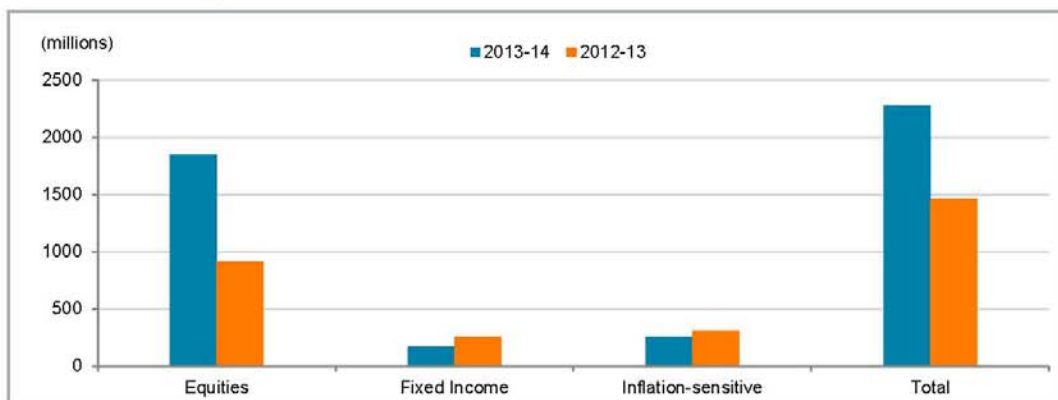
In currency markets, the Canadian dollar ended the fiscal year at 90.47 US cents/C\$, down 8 cents from end of fiscal 2012-13. This was due to the more dovish stance by the Bank of Canada, as well as a strengthening of the US dollar, which appreciated against most other currencies during the fiscal year with the notable exceptions of the Euro and the Swiss Franc.

INVESTMENT INCOME

The Heritage Fund earned record gross investment income of \$2,272 million for the year ended March 31, 2014, an increase of \$808 million over 2012-13. Expense for the year came in at \$163 million, and the net investment income for the year was \$2,109 million. The amount retained for inflation-proofing was \$193 million. The remainder of \$1,916 million was transferred to the General Revenue Fund.

The actual net income for the year was \$852 million more than the income of \$1,257 million projected in *Budget 2013*. 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

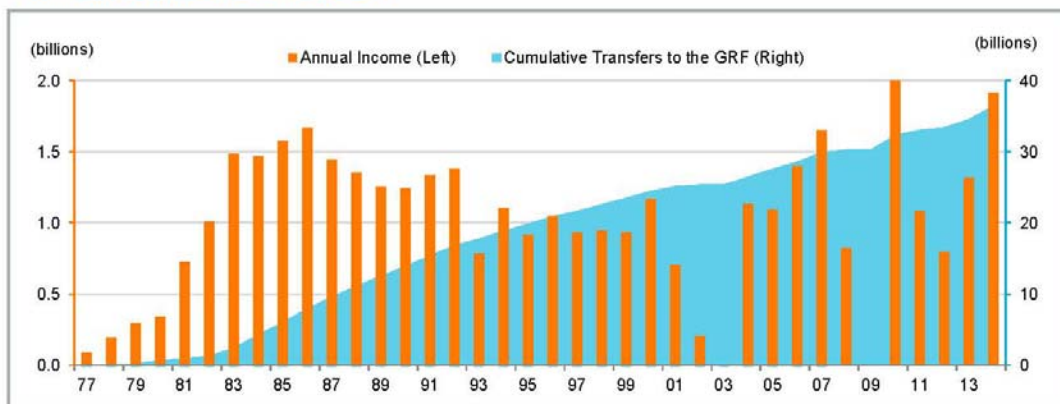


Equities were the primary contributor to earnings during the year, earning \$1,845 million or 81 per cent of total income earned by the Heritage Fund. This amount is more than double the \$908 million earned from equities in 2012-13. Fixed income earned \$171 million in 2013-14, a decline from the \$254 million earned in the previous year. Fewer assets invested in fixed income and lower interest rates contributed to the decline in interest income. Inflation-sensitive and alternatives investments earned \$256 million compared to \$302 million in 2012-13.

INCOME TRANSFER AND INFLATION-PROOFING

After expenses of \$163 million and inflation-proofing of \$193 million, the remaining \$1,916 million of earned income was transferred to the General Revenue Fund. Since the Fund was established in 1976, it has supplied a total of \$36.5 billion in investment income to provide for the priorities of Albertans. This amount includes \$33.0 billion in transfers to the General Revenue Fund as well as \$3.5 billion that was taken from the Fund from 1976 to 1995 to pay for capital projects in Alberta. The Fund has retained \$2.7 billion in investment income for inflation proofing.

Income and Cumulative Transfer to GRF

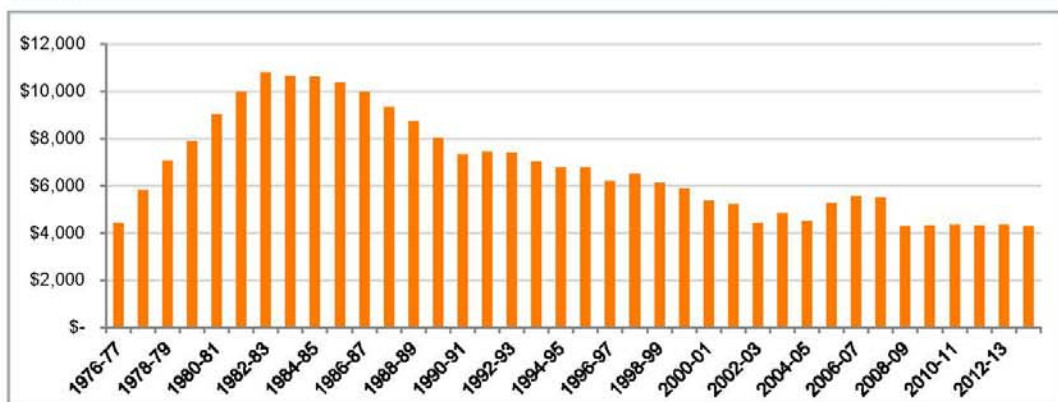


The government savings policy announced last year in the Fiscal Management Act states that the Heritage Fund will retain all net income. This policy will be phased in starting in 2015-16 and by 2017-18 all net investment income will be retained in the Fund.

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 on the following page 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 \$10,800 per capita in today's dollars. Starting in 1987, when deposits into the Fund were stopped the inflation-adjusted fair market value per capita fell substantially. Since inflation-proofing resumed, the per capita market value has stabilized. The market value per capita on March 31, 2014 was \$4,291 per Albertan.

+

Market Value Inflation Adjusted Per Capita
(2014 dollars)



INVESTMENT EXPENSES

The Heritage Fund had investment expenses of \$163 million for the year, which was \$52 million more than budget and \$15 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 in 2013–2014 were 0.94 per cent of the total value of the Fund.

Investment Expenses

| | 2014 | 2013 |
|---|----------|----------|
| Total investment expenses | 163 | 148 |
| Average fair value of investments | \$17,406 | \$16,806 |
| Per cent of investments at average fair value | 0.94% | 0.88% |

ASSET MIX

The Heritage Fund continued to increase its exposure to inflation-sensitive and alternative investments during the 2013-14 fiscal year. The amount invested in this asset class is now 26.9 per cent, which compares to 26.5 per cent one year earlier and the long-term target of 30 per cent. The increase in inflation sensitive and alternative investments came from a reduction in fixed income investments, which fell from 20.2 per cent to 18.8 per cent. The allocation to equities was 54.3 per cent, compared to 53.3 per cent at the end of 2012-13 fiscal year.

Asset Mix

| | March 2014 | March 2013 | Policy range |
|--|--------------|----------------|---------------|
| Fixed Income and Money market (20 per cent) | 18.8% | 20.2% | 15-45% |
| Deposits and short-term | 0.2% | 0.3% | 0-25% |
| Bonds and mortgages | 18.6% | 19.9% | 10-35% |
| Long bonds | 0.0% | 0.0% | 0-10% |
| Inflation-sensitive and Alternative Investments (30 per cent) | 26.9% | 26.5% * | 15-40% |
| Real estate | 18.4% | 17.1% | 10-20% |
| Real return bonds | 0.0% | 0.0% | 0-10% |
| Infrastructure | 6.3% | 6.0% | 5-15% |
| Private debt | 0.0% | 1.8% | 0-5% |
| Timberland | 2.2% | 1.7% | 0-5% |
| Equities (50 per cent) | 54.3% | 53.3% | 35-70% |
| Public | | | |
| Canadian | 8.1% | 7.9% | 5-15% |
| Global developed | 34.4% | 33.8% | 20-65% |
| Emerging markets | 4.7% | 5.2% | 0-10% |
| Frontier markets | 0.0% | 0.0% | 0-5% |
| Private | 7.1% | 6.4% | 0-10% |

* Inflation-Sensitive and Alternative Investments do not add to 26.5% due to rounding"