



Standing Committee on the Alberta Heritage Savings Trust Fund

2017 Committee Annual Report

March 2018



COMMITTEES
OF THE LEGISLATIVE ASSEMBLY

**Standing Committee on the
Alberta Heritage Savings Trust Fund**
Legislative Assembly of Alberta
3rd Floor, 9820 – 107 Street NW
Edmonton, Alberta T5K 1E7
780.415.2878
committees@assembly.ab.ca



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

Legislative Assembly of Alberta
3rd Floor, 9820 – 107 Street NW
Edmonton, AB T5K 1E7
Tel: 780.415.2878 . committees@assembly.ab.ca

March 21, 2018

Honourable Robert Wanner
Speaker of the Legislative Assembly
of the Province of Alberta

Dear Speaker Wanner:

The Standing Committee on the Alberta Heritage Savings Trust Fund has the honour to submit its report covering committee activities from 2017, pursuant to section 6(4)(c) of the *Alberta Heritage Savings Trust Fund Act*.

Sincerely,

[Original Signed]

Craig Coolahan, MLA
Chair, Standing Committee on the
Alberta Heritage Savings Trust Fund

MEMBERS (29th Legislature, Third Session)

CRAIG COOLAHAN, Chair
MLA, Calgary-Klein (ND)

KIM SCHREINER, Deputy Chair
MLA, Red Deer-North (ND)

GREG CLARK*
MLA, Calgary-Elbow (AP)

SCOTT CYR
MLA, Bonnyville-Cold Lake (UCP)

THOMAS DANG
MLA, Edmonton-South West (ND)

MIKE ELLIS
MLA, Calgary-West (UCP)

TREVOR HORNE
MLA, Spruce Grove-St. Albert (ND)

ANNIE McKITRICK
MLA, Sherwood Park (ND)

DR. BOB TURNER
MLA, Edmonton-Whitemud (ND)

* This Member was appointed on December 12, 2017, to replace:

WES TAYLOR
MLA, Battle River-Wainwright (UCP)

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 (2016-2017 fiscal year)	3
V. Meetings Held and Motions Passed by the Standing Committee on the Alberta Heritage Savings Trust Fund (2017-2018 fiscal year)	4
VI. 2017 Annual Public Meeting	5
VII. Schedule of Annual Public Meetings: 2000-2017	7
VIII. Financial Results for 2016-2017	8

APPENDIX I

“The Year in Review” - Excerpt from the Alberta Heritage Savings Trust Fund 2016-17 Annual Report	9
--	---

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- and video-streamed live on the Internet and archived. These audio and video archives as well as meeting 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 Legislature 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, and the report is made 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 investment income earned by the Heritage Fund, less the amount retained in the Fund for inflation proofing, is transferred to the province's main operating fund, the General Revenue Fund, to help pay for priority programs.

III. ROLE OF THE COMMITTEE

An excerpt from the *Alberta Heritage Savings Trust Fund Act*, as amended in December 2015, describes the mandate of the Committee as follows:

6(4) The functions of the Standing Committee are

- (a) to receive and review the quarterly reports referred to in section 15;
- (b) to approve the annual report of the Heritage Fund;
- (c) 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;
- (d) 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 this meeting 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 is responsible for the Heritage Fund's investments. The Minister is required to report on the performance of the Heritage Fund on a quarterly basis 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 and quarterly reports are posted on the Alberta Treasury Board and Finance section of the Alberta Government's website.

The Standing Committee has made every attempt to fulfill its duties as required by the *Alberta Heritage Savings Trust Fund Act*, and the *Standing Orders of the Legislative Assembly of Alberta*.

IV. MEETINGS HELD AND MOTIONS PASSED BY THE STANDING COMMITTEE ON THE ALBERTA HERITAGE SAVINGS TRUST FUND (2016-17 FISCAL YEAR)

The following includes motions passed at Standing Committee meetings held from January 2017 to August 2017, indicating that the mandate of the Committee and the mission of the Fund have been fulfilled in the 2016-17 fiscal year.

January 11, 2017, Meeting:

MOVED by Ms McKittrick that the Standing Committee on the Alberta Heritage Savings Trust Fund receive the 2016-2017 second-quarter report on the Alberta Heritage Savings Trust Fund.

Official substitutes as per Standing Order 56(2.1)-(2.4)

Mr. Hunter for Mr. Cyr

Mr. van Dijken for Mr. Taylor

March 8, 2017, Meeting:

MOVED by Mr. Dang that the Standing Committee on the Alberta Heritage Savings Trust Fund receive the 2016-2017 third-quarter report on the Alberta Heritage Savings Trust Fund.

MOVED by Mr. Horne that the Standing Committee on the Alberta Heritage Savings Trust Fund approve the draft report of the Committee's activities for the period of December 2015 to December 2016.

June 21, 2017, Meeting:

MOVED by Dr. Turner that the Standing Committee on the Alberta Heritage Savings Trust Fund approve the 2016-2017 Alberta Heritage Savings Trust Fund Annual Report as circulated.

MOVED by Mr. Dang that the Standing Committee on the Alberta Heritage Savings Trust Fund schedule the 2017 annual public meeting for Thursday, October 26, 2017, from 7 to 9 p.m. at the Edmonton Federal Building.

Official substitutes as per Standing Order 56(2.1)-(2.4)

Mr. Fildebrandt for Mr. Taylor

Ms Fitzpatrick for Mrs. Schreiner

V. MEETINGS HELD AND MOTIONS PASSED BY THE STANDING COMMITTEE ON THE ALBERTA HERITAGE SAVINGS TRUST FUND (2017-18 FISCAL YEAR)

The following includes motions passed at the Standing Committee meeting held from September 2017 to December 2017, indicating that the mandate of the Committee and the mission of the Fund have been fulfilled in the 2017-18 fiscal year.

September 20, 2017, Meeting:

MOVED by Dr. Turner that the Standing Committee on the Alberta Heritage Savings Trust Fund receive the 2017-2018 first-quarter report on the Alberta Heritage Savings Trust Fund.

Official substitutes as per Standing Order 56(2.1)-(2.4)

Member Carson for Mrs. Schreiner

Mr. Kleinsteuber for Ms McKittrick

Mr. Smith for Mr. Taylor

VI. 2017 ANNUAL PUBLIC MEETING

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.

The 2017 public meeting took place on October 26, 2017, at the Edmonton Federal Building, in Edmonton, Alberta.

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

Craig Coolahan, MLA, Chair

Kim Schreiner, MLA, Deputy Chair

Scott, Cyr, MLA

Thomas Dang, MLA

Mike Ellis, MLA

Trevor Horne, MLA

Annie McKittrick, MLA

Robert Turner, MLA

Grant Hunter, MLA*

*Substitute for Wes Taylor, MLA

Department of Treasury Board and Finance Participants

Lowell Epp, Assistant Deputy Minister, Treasury and Risk Management

Stephen J. Thompson, Executive Director, Capital Markets

Alberta Investment Management Corporation (AIMCo) Participants

Dale MacMaster, Chief Investment Officer

Mark Prefontaine, Senior Vice-president, Client Relations

Public Participants

Leigh Bond

Randolph Dammann

Doug MacDonald

Zeny Marte

Tom Perkins

Stephen Poole

Ken Robinson

Don Rogers

Jai Scouten

The Committee asked Legislative Assembly Office Communications to provide a plan as to how best to promote the annual public meeting. The goal of the Committee was to reach Albertans in order to provide a status report on the AHSTF and to give them an opportunity to learn more about how the Fund's investments and proceeds are managed. Albertans should know what makes the Fund relevant today and what it means for Alberta's future.

The Committee wanted to cast a wide net to reach the general population. Albertans were encouraged to attend in person or to watch the broadcast of the meeting on television or online. Invitations were made through traditional advertising such as radio and print media buys and supplemented with free or low-cost initiatives such as social media and media relations.

An educational video on the Heritage Fund was shown at the beginning of the public meeting. The video was updated this year to reflect the role of the Fund in contemporary Alberta. An abbreviated form of the video was also posted on YouTube and promoted via social media leading up to the meeting.

Five year Comparison of Public Meeting Audience Reach

	2017	2016	2015	2014	2013
Television	Unavailable	1,000	2,000	1,000	7,000
Online	35	22	n/a	41	40
In person	38	12	13	8	33
Total public meeting audience		1,034	2,013	1,049	7,073

STATISTICS

Questions posed to the Committee and panel in 2017

E-mail	19
Twitter	2
Facebook	2
In person	15

How did the audience hear about the meeting?

Radio	14%
Newspaper	14%
Social Media	43%
MLA	14%

The audience age ranges

26 to 45	14%
46 to 55	29%
56 to 65	21%
66 +	29%

Audience locations reported: Leduc, Edmonton, St. Albert, Calgary, Lethbridge, High River, Red Deer

Of those who reported having attended in person: social media, newspaper and radio were mentioned equally.

Form of participation reported: 50% watched online, 21% watched in person, 14% watched on Shaw TV

The majority of respondents reported the meeting as engaging, and most confirmed feeling more informed about the Fund following the meeting.

VII. SCHEDULE OF ANNUAL PUBLIC MEETINGS: 2000-2017

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
November 26, 2015	Edmonton
October 27, 2016	Edmonton
October 26, 2017	Edmonton

VIII. FINANCIAL RESULTS FOR 2016-2017 (Direct Quote from the Minister of Treasury Board and Finance's Message in the Annual Report)

The Heritage Fund posted a strong performance in 2016-17, surpassing its benchmarks and producing record net investment income of \$2.3 billion.

Global equity markets saw excellent returns and Canadian markets were strengthened by improving returns in the energy sector as crude oil rebounded from multi-year lows. As a result, net investment income for the Heritage Fund exceeded expectations from budget and pushed past the previous record of \$2.1 billion in 2013-14.

AIMCo's operationally independent management of the Heritage Fund demonstrated value, with the Fund's investments earning a 10.7 per cent rate of return, exceeding its benchmark of 10.1 per cent. The Fund also surpassed long-term benchmarks, returning 11.0 per cent for the five-year period ending March 31, 2017, and 6.8 per cent over the past 10 years.

Highlights of the financial results for 2016-2017 are contained in The Year in Review, an Excerpt from the Alberta Heritage Savings Trust Fund Annual Report, 2016-2017 (see Appendix I).

THE 2016-17 YEAR IN REVIEW

For the first time in several years, the global economy saw broad-based growth in 2016-17. Growth in developed economies was driven by continued expansion in the US and a measured recovery in Europe, while continued expansion in China and India led growth in emerging economies. Improving global demand allowed financial markets to largely shrug off potentially destabilizing events such as the Brexit referendum in the UK, the US presidential election, and dramatic currency reforms in India.

This is a sharp departure from 2015-16, when seemingly benign occurrences, such as weak manufacturing data from China, would send shudders through global capital markets. One such event in early 2016 caused oil prices to fall to a 20-year low in February 2016. As a result, West Texas Intermediate (WTI), the benchmark North American oil price, opened 2016-17 at US\$35 per barrel, about 30% lower than at the open of 2015-16. These lows were short-lived, however, with WTI recovering above US\$50/bbl by early June. Prices received further support in September when Organization of the Petroleum Exporting Countries (OPEC) and several other oil-exporting countries announced plans to cut production by 1.8 million barrels in the first half of 2017.

The improvement in oil prices led to an uptick in US oil and gas investment which, up to that point, had been a drag on US business investment. Consequently, for the first time in nearly a decade, the US economy was firing on all cylinders. The unemployment rate finally returned to pre-recession levels and there was a long anticipated acceleration in wages. Rising incomes and improved consumer confidence helped fuel consumer spending. Sales of automobiles and light trucks in 2016 were the highest on record. Improving economic conditions and robust price growth prompted the US Federal Reserve to hike short-term interest rates in December 2016 and again in March 2017.

The gradual monetary tightening pursued by the Federal Reserve put it on a different track than central banks in most other advanced economies. Any chance that the Bank of England (BoE) would raise interest rates was scuttled when UK voters voted to leave the European Union (EU) in June 2016. The BoE responded aggressively in August by cutting its key lending rate to a 322-year low of 0.25%, among other measures. This may have helped the UK economy avoid the recession that many believed would result from a vote to leave the EU. Uncertainty around Brexit ensured that the European Central Bank would maintain an accommodative monetary policy stance. The EU continued to see steady, if measured, economic growth over the last year. Even with the economic improvement, the unemployment rate was 9.5% as of March 2017 and a number of EU economies have yet to emerge from the long shadow of the 2008-09 global recession.

After wobbling early in 2016, China's economy regained its footing. Real GDP growth in China remained solid throughout the fiscal year, averaging just under 7%. India surpassed China in terms of economic growth in 2016. Nevertheless, a drastic decision late in 2016 by the central government to invalidate the 500 and 1,000 rupee notes put pressure on the pace of growth. Ostensibly aimed at curbing shadow economy activity, the demonetization disrupted cash transactions in a primarily currency-based economy.

As strengthening global growth took root equity markets responded in kind. The S&P 500 and TSX climbed 20.8% and 19.3% respectively in 2016-17 in Canadian dollar terms. International markets from Britain, Europe, Japan, India, Brazil and Russia followed suit on recovering oil prices and rising economic stability. Diverging monetary policy compared with the US and the disruption to oil exports resulting from the Fort McMurray wildfire caused the Canadian dollar to fall two cents during 2016-17, closing the year at 0.75 US\$/C\$.

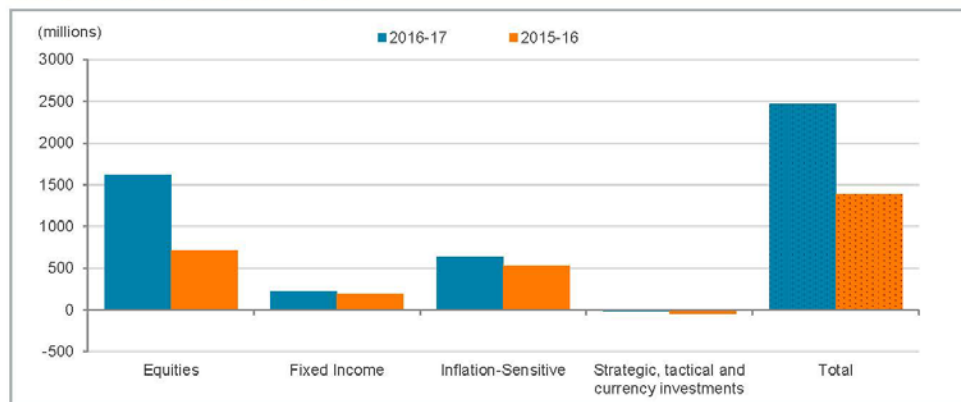
INVESTMENT INCOME

The Heritage Fund earned gross investment income for the fiscal year ending March 31, 2017 of \$2,467 million. This is the largest income the Heritage Fund has ever produced, beating the \$2,272 million earned in 2013-14 and surpassing last year's income of \$1,388 million by \$1,079 million. Investment expenses for the year were \$134 million, resulting in net investment income of \$2,333 million. The *Alberta Heritage Savings Trust Fund Act* requires the Fund be protected against inflation. The inflation proofing amount retained out of net income was \$182 million, based on the Alberta Consumer Price Index increase of 1.2%.

Net income was substantially greater than what was projected in *Budget 2016* because of better-than-expected returns in equity markets and the sale of assets that had gains in previous quarters. *Budget 2016* projected net income of \$1,055 million, which was \$1,278 million less than what was actually earned.

The equity assets in the portfolio generated \$1,619 million, which was almost two-thirds of the total income the portfolio earned during the year. The equity portfolio generated \$909 million more income than it did during the previous year. The inflation-sensitive assets in the portfolio generated \$636 million in income, which was \$107 million more than the previous year. The fixed income portfolio generated \$226 million, which was \$35 million more than the previous year. Strategic, tactical and currency investments lost \$14 million during the year, which was less of a loss than the \$42 million those assets lost the previous year.

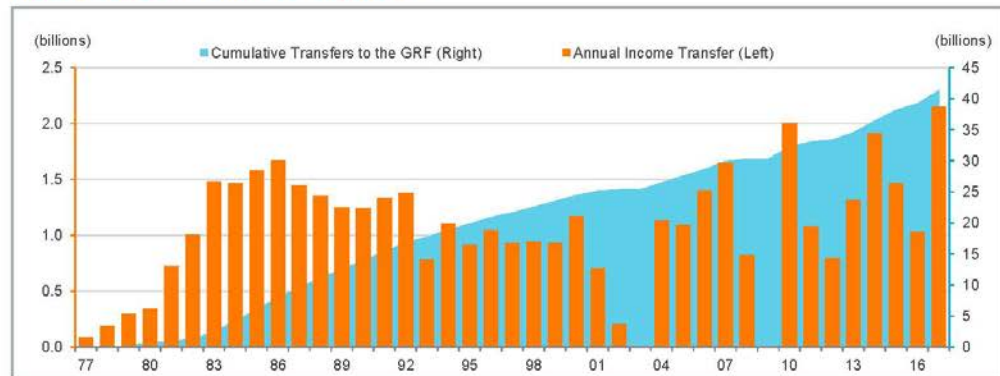
Investment Income by Asset Class



INCOME TRANSFER AND INFLATION-PROOFING

Established in 1976, the Heritage Fund has earned \$40.8 billion in accumulated net income, of which \$3.3 billion has been retained for inflation proofing. Income transfers to the General Revenue Fund commenced in 1982-83, with \$37.6 billion transferred to support government programs and projects. An additional \$3.5 billion was transferred between 1976 and 1995 to pay for capital projects and seed other endowments in Alberta. Overall, the Heritage Fund has contributed \$41.4 billion to the benefit of Albertans.

Income and Cumulative Transfer to GRF



Cumulative inflation since the Fund's inception in 1976 has caused prices to increase more than four times. The chart below illustrates inflation and population growth deteriorating the fund over time. The market value per capita reached its peak, in real dollars, in 1983 when the fund was worth \$11,247 per Albertan. It now stands at \$4,084 per Albertan. There are three factors that have led to the decrease over the years. In 1983, deposits into the fund from natural resource revenues were stopped and income from the fund was transferred to the Province. Although inflation proofing since 2005 has somewhat stabilized the per capita value of the fund, the population of the Province has grown by 130% since 1976.

Market Value Inflation Adjusted Per Capita

(2017 dollars)

