



Standing Committee on the Alberta Heritage Savings Trust Fund

2018 Committee Annual Report

June 2019



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

Legislative Assembly of Alberta
3rd Floor, 9820 – 107 Street NW
Edmonton, AB T5K 1E7
Tel: 780.422.9601 . committees@assembly.ab.ca

June 21, 2019

Honourable Nathan Cooper
Speaker of the Legislative Assembly
of the Province of Alberta

Dear Speaker Cooper:

The Standing Committee on the Alberta Heritage Savings Trust Fund has the honour to submit its report covering committee activities from the 29th Legislature, January to December 2018, pursuant to section 6(4)(c) of the *Alberta Heritage Savings Trust Fund Act*.

Sincerely,

[Original Signed]

Richard Gotfried, MLA
Chair, Standing Committee on the
Alberta Heritage Savings Trust Fund

MEMBERS (29th Legislature, Third Session)

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

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

GREG CLARK
MLA, Calgary-Elbow (AP)

SCOTT CYR
MLA, Bonnyville-Cold Lake (UCP)

THOMAS DANG
MLA, Edmonton-South West (NDP)

MIKE ELLIS
MLA, Calgary-West (UCP)

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

ANNIE McKITRICK
MLA, Sherwood Park (NDP)

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

MEMBERS (29th Legislature, Fourth Session, Spring)

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

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

SCOTT CYR
MLA, Bonnyville-Cold Lake (UCP)

THOMAS DANG
MLA, Edmonton-South West (NDP)

MIKE ELLIS
MLA, Calgary-West (UCP)

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

ROBYN LUFF*
MLA, Calgary-East (NDP)

KAREN McPHERSON**
MLA, Calgary-Mackay-Nose Hill (AP)

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

* This Member was appointed on April 19, 2018, to replace:

ANNIE McKITRICK
MLA, Sherwood Park (NDP)

** This Member was appointed on April 19, 2018, to replace:

GREG CLARK
MLA, Calgary-Elbow (AP)

MEMBERS (29th Legislature, Fourth Session, Fall)

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

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

SCOTT CYR
MLA, Bonnyville-Cold Lake (UCP)

THOMAS DANG
MLA, Edmonton-South West (NDP)

DEBORAH DREVER*
MLA, Calgary-Bow (NDP)

MIKE ELLIS
MLA, Calgary-West (UCP)

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

KAREN McPHERSON
MLA, Calgary-Mackay-Nose Hill (AP)

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

* This Member was appointed on November 26, 2018, to replace:

ROBYN LUFF
MLA, Calgary-East (IND)

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 in 2018	3
V. 2018 Annual Public Meeting	4
VI. Statistics from the 2018 Annual Public Meeting	5
VII. Schedule of Annual Public Meetings: 2000-2018	7
VIII. Financial Results for 2017-2018	8

APPENDIX I

“The 2017-18 Year in Review” – Excerpt from the Alberta Heritage Savings Trust Fund 2017-18 Annual Report	9
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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. 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. Committee proceedings are also broadcast on Alberta Assembly TV.

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 are 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 that 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 as well as 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

Section 6(4) of the *Alberta Heritage Savings Trust Fund Act*, as amended in December 2015, sets out 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. 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 Government of Alberta'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 IN 2018

The following motions were passed at Standing Committee meetings in 2018, indicating that the mandate of the Committee and the mission of the Fund have been fulfilled.

January 16, 2018, Meeting

MOVED by Mr. Horne that the Standing Committee on the Alberta Heritage Savings Trust Fund receive the 2017-2018 second-quarter report on the Alberta Heritage Savings Trust Fund.

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

Mr. Hanson for Mr. Cyr

March 21, 2018, Meeting

MOVED by Mr. Clark that the Standing Committee on the Alberta Heritage Savings Trust Fund receive the 2017-2018 third-quarter report on the Alberta Heritage Savings Trust Fund.

MOVED by Dr. Turner that the Standing Committee on the Alberta Heritage Savings Trust Fund approve the draft annual report of its activities from 2017.

MOVED by Ms Fitzpatrick that the Standing Committee on the Alberta Heritage Savings Trust Fund schedule the 2018 annual public meeting for Thursday, October 25, 2018, from 7 to 9 p.m. at the Edmonton Federal Building.

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

Ms Fitzpatrick for Ms McKittrick

Mr. Sucha for Mr. Dang

June 20, 2018, Meeting

MOVED by Dr. Turner that the Standing Committee on the Alberta Heritage Savings Trust Fund approve the 2017-2018 Alberta Heritage Savings Trust Fund Annual Report as circulated.

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

Ms McKittrick for Mrs. Schreiner

September 25, 2018, Meeting

MOVED by Member Loyola that the Standing Committee on the Alberta Heritage Savings Trust Fund receive the 2018-2019 first-quarter report on the Alberta Heritage Savings Trust Fund.

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

Mr. Kleinsteuber for Mr. Dang

Member Loyola for Dr. Turner

Mr. McIver for Mr. Cyr

V. 2018 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 2018 public meeting took place on October 25, 2018, 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

Trevor Horne, MLA

Thomas Dang, MLA

Karen McPherson, MLA**

Mike Ellis, MLA

Dr. Bob Turner, MLA

Maria Fitzpatrick, MLA*

*Substitute for Robyn Luff, MLA

**Teleconference

Ministry of Treasury Board and Finance Participants

Rod Babineau, Manager, Portfolio Analysis, Capital Markets

Lowell Epp, Assistant Deputy Minister, Treasury and Risk Management

Alberta Investment Management Corporation (AIMCo) Participants

Dale MacMaster, Chief Investment Officer

Mark Prefontaine, Chief Client and Stakeholder Relations Officer

Kevin Uebelein, Chief Executive Officer

Public Participants

Leigh Bond

Rick Haney

Chris Power

Lou Duigou

Frank Hanus

Darcy Tkachuk

Max Fawcett

Alex Herdman

Paul Gervais

Cec MacKenzie

The Committee asked Legislative Assembly Office Communications Services 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.

The Committee wanted to cast a wide net to reach the general public. 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 and supplemented with free or low-cost initiatives such as social media.

An educational video on the Heritage Fund was shown at the beginning of the public meeting.

VI. STATISTICS FROM THE 2018 ANNUAL PUBLIC MEETING

Five-year Comparison of Public Meeting Audience Reach

	2018	2017	2016	2015	2014
Television	N/A	N/A	1,000	2,000	1,000
Online	49	35	22	N/A	41
In person	25	38	12	13	8
Total public meeting audience	N/A	N/A	1,034	2,013	1,049

STATISTICS

Questions Posed to the Committee and Panel in 2018

E-mail	2
Twitter	2
Facebook	0
In person	20

SURVEY RESULTS (POSTMEETING)

How did the audience hear about the meeting?

Assembly website	3
Through my MLA	1
Social media	7
Newspaper ad	8
Radio ad	3
Media coverage	1
Boss	1

How did you watch the public meeting?

Media	Percentage of respondents
Assembly website	11.8%
In person	29.4%
On Alberta Assembly TV	52.9%
On YouTube	5.9%

How engaging did you find the public meeting?

1 – Not engaging at all	0
2	0
3	2
4	12
5 – Very engaging	3

Where do you currently reside?

Calgary	2
Edmonton	9
Lethbridge	1
Sherwood Park	1
St. Albert	1
Yukon	1
Red Deer	1

Do you feel more informed about the Alberta Heritage Savings Trust Fund than you did before the meeting?

Yes	100%
No	0%

To which age group do you belong?

18 to 25	0
26 to 35	5.9%
36 to 45	29.4%
46 to 55	35.3%
56 to 65	23.5%
66+	5.9%

VII. SCHEDULE OF ANNUAL PUBLIC MEETINGS: 2000-2018

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
October 25, 2018	Edmonton

VIII. FINANCIAL RESULTS FOR 2017-2018 (Quote from the President of Treasury Board and Minister of Finance's Message in the Annual Report)

The Heritage Fund continued to see strong returns, generating an 8.5 per cent return and earning more than \$1.7 billion. This is \$622 million more than we projected in Budget 2017. The Heritage Fund's strong performance from equity and inflation sensitive assets have generated better-than-expected income, leading to the high returns we see today...

Through the Alberta Investment Management Corporation (AIMCo), we continue to seek out strong investment opportunities – both globally and in Alberta – that maximize returns. The Alberta Growth Mandate continues to see strong investment growth, generating benefits to the province without sacrificing long-term financial returns. Since the mandate was introduced in 2015, AIMCo has independently invested \$362.1 million from the Heritage Fund to support growth opportunities in the province that will provide long-term financial returns that benefit Albertans. AIMCo will continue to review how investments are identified, reviewed and managed within the current investment structure, to ensure Albertans get maximum return on their investment.

The 2017–18 Year in Review

The global economy exceeded expectations in 2017-18 as it grew at the fastest pace in six years. A marked rebound in global trade, business investment and industrial production facilitated a synchronized expansion across developed and developing economies for the first time following the 2009 global financial crisis. In advanced economies, there was a pronounced upturn in the Euro Area and solid US growth was underpinned by a broad-based upswing in energy investment. The pickup in industrial production in Asia and global trade also lifted the Chinese and Indian economies, while firmer commodity prices fuelled the recovery in resource-exporting countries such as Brazil and Russia.

With global growth gaining momentum, central banks in advanced economies looked to tighten monetary policy. The US Federal Reserve and the Bank of Canada increased interest rates three times over the past fiscal year. The European Central Bank kept rates unchanged but began to scale back its bond-buying stimulus program. Core inflation has recently firmed in some advanced economies, particularly in the US and Canada, where wage growth has picked up amid tight labour market conditions.

Rising global growth contributed to an uplift in oil and other non-energy commodities prices. Oil prices rose steadily since mid-2017, supported by robust global demand and continued supply restraint by the Organization of the Petroleum Exporting Countries (OPEC) and Russia. Mounting supply-side risks arising from renewed US sanctions against Iran and falling production in Venezuela pushed WTI to a three-year high of about US\$65/barrel at the end of the fiscal year.

After robust growth throughout most of 2017, global equity markets experienced bouts of volatility in the first quarter of 2018. Concerns over higher inflation in January and news of US tariffs on steel and aluminum in March contributed to equity market declines. Though most US equity markets saw double-digit growth over the fiscal year, the TSX had minimal gains reflecting muted growth in the value of resource stocks.

Uncertainties generated from increased US protectionist trade policies impacted the Canadian tightening cycle in the last quarter of the fiscal year. Accordingly, the Canadian dollar lost 5.9% of its value after peaking at a two-year high of over 82 US cents/C\$ in September 2017. The Canadian dollar closed the 2017-18 at 0.78US\$/C\$, down 3.2% from a year prior.

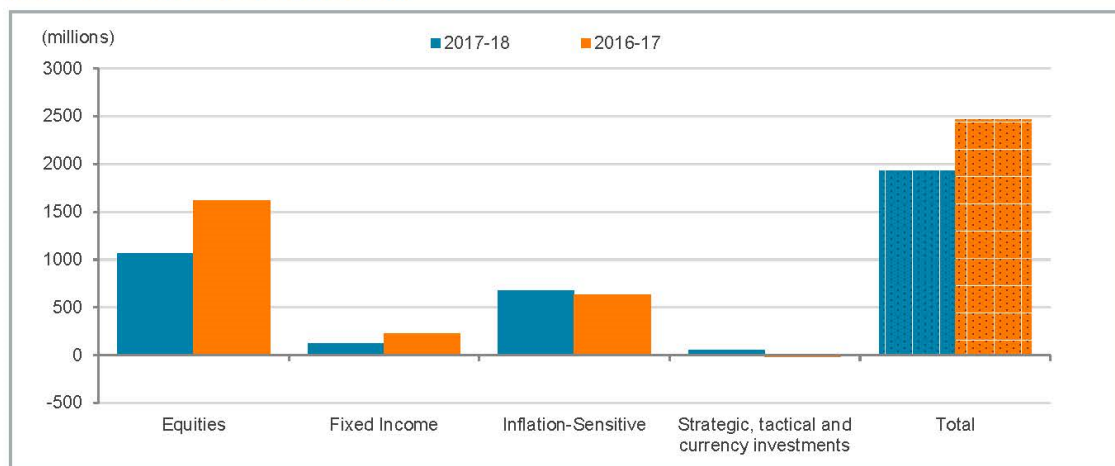
INVESTMENT INCOME

The Heritage Fund earned gross investment income for the fiscal year ending March 31, 2018 of \$1,926 million. This is less than the \$2,467 million earned last fiscal year, which was the most income the Heritage Fund earned in a year. Investment expenses for the year were \$139 million, resulting in net investment income of \$1,787 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 \$230 million, based on the Alberta Consumer Price Index increase of 1.5%.

Net income was greater than what was projected in *Budget 2017* because of better-than-expected income generated from equity and inflation sensitive assets, and from the sale of assets that had gains earned in previous years. *Budget 2017* projected net income of \$1,165 million, which was \$622 million less than what was actually earned.

The equity assets in the portfolio generated \$1,067 million, which was approximately half of the total income the portfolio earned during the year. The equity portfolio generated \$552 million less income than it did during the previous year. The inflation-sensitive assets in the portfolio generated \$678 million in income, which was \$42 million more than the previous year. The fixed income portfolio generated \$127 million, which was \$99 million less than the previous year. Strategic, tactical and currency investments made \$54 million during the year, which was \$68 million more than the \$14 million loss suffered last year.

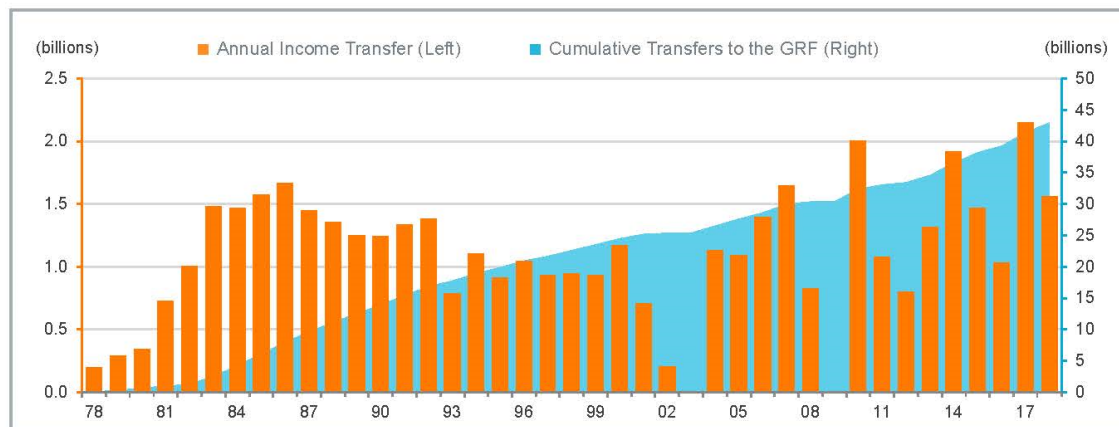
Investment Income by Asset Class



INCOME TRANSFER AND INFLATION-PROOFING

Established in 1976, the Heritage Fund has earned \$42.6 billion in accumulated net income as of March 31, 2018, of which \$3.6 billion has been retained for inflation proofing. Income transfers to the General Revenue Fund commenced in 1982-83, and since then \$39.2 billion has been transferred to support government programs and projects. In addition to the income transfers \$3.5 billion was transferred out of the fund between 1976 and 1995 to pay for projects and seed other endowments in Alberta. Overall, the Heritage Fund has contributed \$43.0 billion to the benefit of Albertans since its creation in 1976.

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 shows how inflation and population growth has deteriorated the fund over time. The market value per capita reached its peak, in real dollars, in 1983 when the fund was worth \$11,507 per Albertan. It now stands at \$4,034 per Albertan. There are three factors that have led to the decrease over the years. Firstly, in 1983 deposits into the fund from natural resource revenues were decreased and completely stopped in 1987. Secondly, the realized income generated by the fund was transferred to the Province. Although inflation proofing since 2005 has somewhat stabilized the per capita value of the fund, the third factor that has deteriorated the market value per capita is the population of the Province has grown by more than 130% since 1976.

Market Value Inflation Adjusted Per Capita

(2018 dollars)

