

# Standing Committee on the Alberta Heritage Savings Trust Fund

## 2019 Committee Annual Report

July 2020



**COMMITTEES**  
OF THE LEGISLATIVE ASSEMBLY

**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  
3<sup>rd</sup> Floor, 9820 – 107 Street NW  
Edmonton, AB T5K 1E7  
Tel: 780.422.9601 . [Committee.Admin@assembly.ab.ca](mailto:Committee.Admin@assembly.ab.ca)

July 13, 2020

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 January to December 2019, pursuant to section 6(4)(c) of the *Alberta Heritage Savings Trust Fund Act*.

Sincerely,

*[original signed]*

Ronald Orr, MLA  
Chair, Standing Committee on the  
Alberta Heritage Savings Trust Fund



## **MEMBERS (29<sup>th</sup> Legislature, Fourth and Fifth Sessions)**

**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)

## **MEMBERS (30<sup>th</sup> Legislature, First Session, Spring)**

**RICHARD GOTFRIED, Chair**  
MLA, Calgary-Fish Creek (UCP)

**RONALD ORR, Deputy Chair**  
MLA, Lacombe-Ponoka (UCP)

**TRACY ALLARD**  
MLA, Grande Prairie (UCP)

**DAVID EGGEN**  
MLA, Edmonton-North West (NDP)

**SHANE GETSON**  
MLA, Lac Ste. Anne-Parkland (UCP)

**MICHAELA GLASGO**  
MLA, Brooks-Medicine Hat (UCP)

**JANIS IRWIN**  
MLA, Edmonton-Highlands-Norwood (NDP)

**MATT JONES**  
MLA, Calgary-South East (UCP)

**CHRIS NIELSEN**  
MLA, Edmonton-Decore (NDP)

## **MEMBERS (30<sup>th</sup> Legislature, First Session, Fall)**

**RONALD ORR, Chair\***

MLA, Lacombe-Ponoka (UCP)

**SHANE GETSON, Deputy Chair\*\***

MLA, Lac Ste. Anne-Parkland (UCP)

**TRACY ALLARD**

MLA, Grande Prairie (UCP)

**DAVID EGGEN**

MLA, Edmonton-North West (NDP)

**MICHAELA GLASGO**

MLA, Brooks-Medicine Hat (UCP)

**MATT JONES**

MLA, Calgary-South East (UCP)

**ROD LOYOLA\*\*\***

MLA, Edmonton-Ellerslie (NDP)

**CHRIS NIELSEN**

MLA, Edmonton-Decore (NDP)

**PETER SINGH\*\*\*\***

MLA, Calgary-East (UCP)

\* This Member was appointed as Chair on October 8, 2019, to replace:

**RICHARD GOTFRIED**

MLA, Calgary-Fish Creek (UCP)

\*\* This Member was appointed as Deputy Chair on October 8, 2019, to replace:

**RONALD ORR**

MLA, Lacombe-Ponoka (UCP)

\*\*\* This Member was appointed on October 8, 2019, to replace:

**JANIS IRWIN**

MLA, Edmonton-Highlands-Norwood (NDP)

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**RICHARD GOTFRIED**

MLA, Calgary-Fish Creek (UCP)





## TABLE OF CONTENTS

	<b>Page Number</b>
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 2019 .....	3
V. 2019 Annual Public Meeting .....	4
VI. Statistics from the 2019 Annual Public Meeting .....	5
VII. Schedule of Annual Public Meetings: 2000-2019 .....	7
VIII. Financial Results for 2018-2019 .....	8

## APPENDIX I

“The 2018-19 Year in Review” – Excerpt from the Alberta Heritage Savings Trust Fund 2018-19 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](http://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 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 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 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 2019**

The following motions were passed at Committee meetings in 2019, indicating that the mandate of the Committee and the mission of the Fund have been fulfilled.

### **January 16, 2019, Meeting**

**MOVED by** Mr. Sucha that the Standing Committee on the Alberta Heritage Savings Trust Fund receive the 2018-2019 second-quarter report on the Alberta Heritage Savings Trust Fund.

**Official substitutes pursuant to Standing Order 56(2.1)-(2.4)**

Ms McKittrick for Dr. Turner

Mr. Sucha for Mr. Dang

Ms Woollard for Mrs. Schreiner

### **June 21, 2019, Meeting**

**MOVED by** Mrs. Allard that the Standing Committee on the Alberta Heritage Savings Trust Fund receive the 2018-2019 third-quarter report on the Alberta Heritage Savings Trust Fund.

**MOVED by** Mr. Jones that the Standing Committee on the Alberta Heritage Savings Trust Fund approve the 2018-2019 Alberta Heritage Savings Trust Fund report.

**MOVED by** Member Irwin that the Standing Committee on the Alberta Heritage Savings Trust Fund approve the draft annual report of its activities during the 2018 calendar year.

**MOVED by** Mrs. Allard that the Standing Committee on the Alberta Heritage Savings Trust Fund schedule the 2019 annual public meeting for Thursday, October 24, 2019, from 7 to 9 p.m. at the Edmonton Federal Building.

### **September 12, 2019, Meeting**

**MOVED by** Mr. Getson that the Standing Committee on the Alberta Heritage Savings Trust Fund receive the 2019-2020 first-quarter report on the Alberta Heritage Savings Trust Fund.

**Official substitutes pursuant to Standing Order 56(2.1)-(2.4)**

Mr. Hanson for Ms Glasgo

Mr. Rowswell for Mr. Jones

Mr. R.J. Sigurdson for Mrs. Allard

## **V. 2019 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 2019 public meeting took place on October 24, 2019, at the Edmonton Federal Building, in Edmonton, Alberta.

### **Standing Committee on the Alberta Heritage Savings Trust Fund Members in Attendance**

Ronald Orr, MLA, Chair

Shane Getson, MLA, Deputy Chair

Tracy Allard, MLA      Rod Loyola, MLA  
David Eggen, MLA      Chris Nielsen, MLA  
Michaela Glasgo, MLA   Peter Singh, MLA  
Matt Jones, MLA

### **Ministry of Treasury Board and Finance Participants**

Lowell Epp, Assistant Deputy Minister, Treasury and Risk Management

Brittany Jones, Trader, Money Market, Capital Markets

Stephen J. Thompson, Executive Director, Capital Markets

### **Alberta Investment Management Corporation (AIMCo) Participants**

Mark Prefontaine, Chief Client and Stakeholder Relations Officer

Kevin Uebelein, Chief Executive Officer

### **Public Participants**

Elyse Borlé                      Risa Kawchuk  
Ken Crutchfield                Lorraine Kuffner  
Kashmir Gill                     Jerry Voss

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 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 2019 ANNUAL PUBLIC MEETING

### Five-year Comparison of Public Meeting Audience Reach

	2019	2018	2017	2016	2015
Television	N/A	N/A	N/A	1,000	2,000
Online	68	49	35	22	N/A
In person	17	25	38	12	13
Total public meeting audience	N/A	N/A	N/A	1,034	2,013

### STATISTICS

#### Questions Posed to the Committee and Panel in 2019

Online (Twitter/Facebook/e-mail)	5
In person	19

### SURVEY RESULTS (POSTMEETING)

#### *How did you hear about the meeting?*

Social media	10
Newspaper ad	4
MLA	3
Assembly website	2
Employer	1

#### *How did you watch the public meeting?*

In person	9
Alberta Assembly TV	6
Assembly website	3
Facebook Live	1
Twitter Live	1

#### *How engaging did you find the public meeting?*

1 – Not engaging at all	0
2	2
3	3
4	6
5 – Very engaging	8

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

Yes	85%
No	15%

***To which age group do you belong?***

18 to 25	0
26 to 35	6
36 to 45	2
46 to 55	5
56 to 65	3
66+	4

***Where do you currently reside?***

Edmonton	10
Calgary	3
Airdrie	1
Lacombe	1
Sherwood Park	1
St. Albert	1



## **VII. SCHEDULE OF ANNUAL PUBLIC MEETINGS: 2000-2019**

<b>Meeting Date</b>	<b>Location</b>
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
October 24, 2019	Edmonton

## **VIII. FINANCIAL RESULTS FOR 2018-2019**

During the 2018-2019 fiscal year the Alberta Heritage Savings Trust Fund earned an annual return of 8.0 per cent and realized a 10-year annualized rate of return of 10.8 per cent, outperforming policy benchmarks of 6.5 per cent and 9.6 per cent respectively. The Fund's market value as of March 31, 2019, was \$18.2 billion, an increase of \$800 million from the previous year.

The net income of the Heritage Fund during 2018-2019 was \$937 million. As required by the *Alberta Heritage Savings Trust Fund Act*, the Fund retained \$374 million of its net income for inflation-proofing, with the remaining \$563 million transferred to the General Revenue Fund.

As of March 31, 2019, the Fund's asset portfolio consisted of equity investments (42.3 per cent), inflation-sensitive and alternative investments (37.6 per cent), fixed income and money market investments (19.1 per cent) and other strategic opportunities (1.0 per cent).

Highlights of the financial results for 2018-2019 are contained in "The 2018-19 Year in Review," an excerpt from the Alberta Heritage Savings Trust Fund 2018-2019 annual report (see Appendix I).

## The 2018–19 Year in Review

The 2018-19 fiscal year experienced its share of difficulties. Trade war concerns, high levels of volatility and periods of alternating strong and weak economic data contributed to a roller coaster of returns and interest rate uncertainty. Early in the fiscal year, world interest rate probabilities were leaning toward an increasing rate environment consisting of several rate hikes. A very different outlook was present to end the fiscal year as the market began pricing in rate cuts in Canada and the US as early as December 2019.

Fixed income markets saw Canadian 10-year bond yields hitting their highest levels since 2014 at the start of October. During this same week, a sharp downturn in equities began. As the volatility persisted and the equity markets tested new resistance levels, fixed income markets saw higher bond prices and a corresponding downturn in Canadian bond yields across the curve that would persist until the end of the fiscal year. The equity underperformance was felt strongly in late December when year-to-date returns for North American equity markets turned negative. In December, the S&P 500 fell over 15% and the TSX reacted similarly, losing almost 10%.

Despite the turmoil in the public markets, year-end valuation uplifts from illiquid assets were able to buoy performance into positive territory by the end of 2018. This is typically the case as it is expensive and time consuming to value these assets and as a result, this intensive process is performed at AIMCo calendar year end. The Infrastructure portfolio recorded one of the best years of performance since inception. Canadian Real Estate was also able to contribute to the overall return with net value increases from all four Toronto area property types, office, retail, industrial, and residential.

Equity markets rebounded over the fourth fiscal quarter, more than regaining all December losses. Despite this rebound, portfolio returns still lagged the benchmark. Value driven strategies detracted the most from overall performance, while Information Technology sharply reversed late 2018 losses.

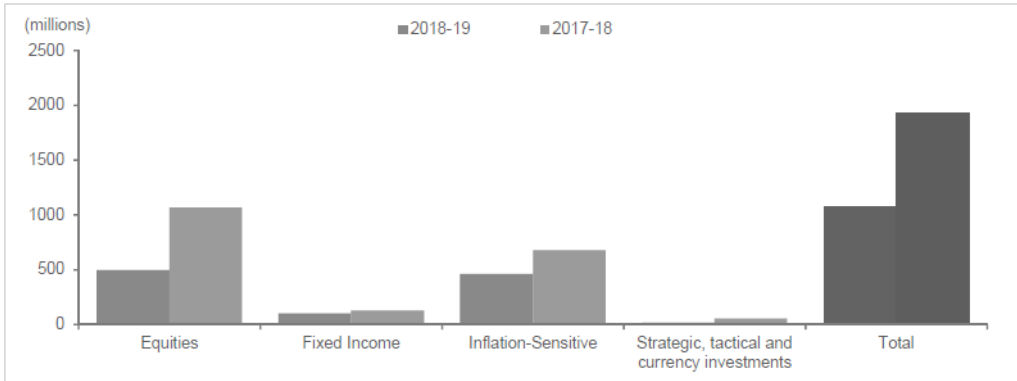
## INVESTMENT INCOME

The Heritage Fund earned gross investment income for the fiscal year ending March 31, 2019 of \$1,071 million. This is less than the \$1,926 million earned last fiscal year. Investment expenses for the year were \$134 million, resulting in net investment income of \$937 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 \$374 million, based on the Alberta Consumer Price Index increase of 2.4%.

*Budget 2018* projected net income to be \$1,530 million for the year; however, actual net income was \$593 million less than expected. Market volatility in late December and lower-than-expected returns in equity were a few factors that contributed to the reduction in investment income for the fund.

All of the asset classes earned less income than they did the previous year. Equities contributed \$495 million, which was \$572 million less than the prior year. The Heritage Fund has a 26.7% allocation to Foreign Equity, which includes Global Equities and Emerging Markets. Inflation sensitive and alternative assets contributed \$461 million, which was \$217 million less than the prior year. Although these investments contributed less income, performance was positive over the year and buoyed performance overall. Fixed income contributed \$101 million, \$26 million less than the prior year. Although the overall contribution to income was lower from this asset class, fixed income investments provided steady value add throughout the year, which aided the portfolio through volatile times. Strategic opportunities provided \$14 million in income, down \$40 million from the prior year.

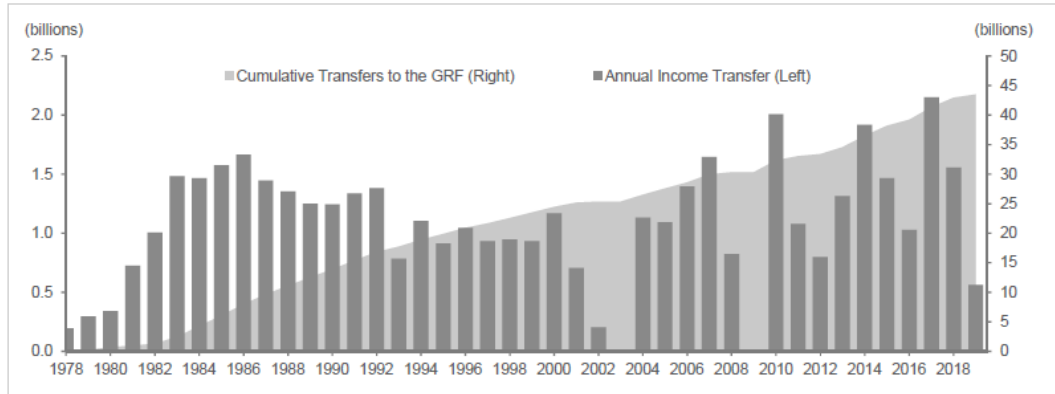
Investment Income by Asset Class



## INCOME TRANSFER AND INFLATION-PROOFING

Established in 1976, the Heritage Fund has earned \$43.5 billion in accumulated net income as of March 31, 2019, of which \$3.9 billion has been retained for inflation proofing. Income transfers to the General Revenue Fund commenced in 1982-83, and since then, \$39.8 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 \$43.5 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 \$4,097 per Albertan. There are three factors that have led to the decrease over the years. Firstly, deposits into the fund from natural resource revenues were decreased in 1983 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  
(2019 dollars)

