

# Standing Committee on The Alberta Heritage Savings Trust Fund

## 2020 Committee Annual Report

June 2021



**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**

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Tel: 780.422.9601 . [Committee.Admin@assembly.ab.ca](mailto:Committee.Admin@assembly.ab.ca)

June 2021

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 2020, 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 (30<sup>th</sup> Legislature, Second Session, Spring)**

**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)

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

**RONALD ORR, Chair**

MLA, Lacombe-Ponoka (UCP)

**SHANE GETSON, Deputy Chair**

MLA, Lac Ste. Anne-Parkland (UCP)

**DAVID EGGEN**

MLA, Edmonton-North West (NDP)

**MICHAELA GLASGO**

MLA, Brooks-Medicine Hat (UCP)

**CHRISTINA GRAY\***

MLA, Edmonton-Mill Woods (NDP)

**MATT JONES**

MLA, Calgary-South East (UCP)

**SHANNON PHILLIPS\*\***

MLA, Lethbridge-West (NDP)

**PETER SINGH**

MLA, Calgary-East (UCP)

**SEARLE TURTON\*\*\***

MLA, Spruce Grove-Stony Plain (UCP)

\* This Member was appointed on October 20, 2020, to replace:

**ROD LOYOLA**

MLA, Edmonton-Ellerslie (NDP)

\*\* This Member was appointed on October 20, 2020, to replace:

**CHRIS NIELSEN**

MLA, Edmonton-Decore (NDP)

\*\*\* This Member was appointed on October 20, 2020, to replace:

**TRACY ALLARD**

MLA, Grande Prairie (UCP)

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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.

The Committee authorized the use of video conferencing for Members to participate in meetings remotely with the proviso that the committee may pass a motion to require members' in-person attendance at a particular meeting.

## 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, functions 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 2020**

The following motions were passed at Committee meetings in 2020, indicating that the mandate of the Committee and the mission of the Fund have been fulfilled.

##### **February 16, 2020, Meeting**

**MOVED by** Mr. Getson that the Standing Committee on the Alberta Heritage Savings Trust Fund receive the 2019-20 second-quarter report of the Alberta Heritage Savings Trust Fund.

**Official substitutes pursuant to Standing Order 56(2.1)-(2.4)**  
Member Rod Loyola for Ms Shannon Phillips

##### **July 13, 2020, Meeting**

**MOVED by** Ms Glasgo that the Standing Committee on the Alberta Heritage Savings Trust Fund receive the 2019-20 third-quarter report on the Alberta Heritage Savings Trust Fund.

**MOVED by** Mr. Getson that the Standing Committee on the Alberta Heritage Savings Trust Fund approve the 2019-20 annual report on the Alberta Heritage Savings Trust Fund.

**MOVED by** Mr. Nielsen that the Standing Committee on the Alberta Heritage Savings Trust Fund approve the draft annual report of its activities during 2019.

**MOVED by** Mr. Singh that the Standing Committee on the Alberta Heritage Savings Trust Fund hold the 2020 public meeting at the Edmonton Federal Building and decide on the date and format at the Committee's next meeting.

**MOVED by** Mr. Getson that the Standing Committee on the Alberta Heritage Savings Trust Fund direct LAO Communications Services to prepare a draft communications plan in support of the 2020 public meeting, including providing cost information for using a moderated teleconference if required, and that the Chair be authorized to approve the communications plan after it has been made available for the Committee to review.

**Official substitutes pursuant to Standing Order 56(2.1)-(2.4)**  
Ms Jackie Armstrong-Homeniuk for Ms Tracy Allard  
Mr. Dan Williams for Mr. Matt Jones

##### **September 15, 2020, Meeting**

**MOVED by** Mr. Singh that the Standing Committee on the Alberta Heritage Savings Trust Fund receive the 2020-21 first-quarter report on the Alberta Heritage Savings Trust Fund.

**MOVED by** Mr. Eggen that the Standing Committee on the Alberta Heritage Savings Trust Fund hold the annual public meeting on Thursday, October 29, 2020, from 7 o'clock p.m. to 9 o'clock p.m., permit members of the public to attend the meeting in person, and use a moderated teleconference to provide for additional participation by members of the public.

**Official substitutes pursuant to Standing Order 56(2.1)-(2.4)**  
Mr. Lorne Dach for Member Rod Loyola

## **V. 2020 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 2020 public meeting took place on October 29, 2020, at the Edmonton Federal Building, in Edmonton, Alberta.

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

Ronald Orr, MLA, Chair

Matt Jones, MLA, Acting Deputy Chair

David Eggen, MLA      Mark Smith, MLA\*  
Christina Gray, MLA      Jason Stephan, MLA\*\*  
Shannon Phillips, MLA      Searle Turton, MLA  
Peter Singh, MLA

\* Substitution for Shane Getson, Deputy Chair

\*\* Substitution for Michaela Glasgo

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

Lowell Epp, Assistant Deputy Minister, Treasury and Risk Management

Brittany Jones, Acting Senior Manager, Portfolio Analytics and Research

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

Dale MacMaster, Chief Investment Officer

Kevin Uebelein, Chief Executive Officer

### **Public Participants**

June Acorn      Richard Iwuc  
Sam Balakrishman      Dwayne Wladyka  
Phillip From

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 2020 ANNUAL PUBLIC MEETING

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

	2020	2019	2018	2017	2016
Television	N/A	N/A	N/A	N/A	1,000
Online	127	68	49	35	22
In person	3	17	21*	38	12
Social media	1,024 YouTube (178) Facebook (720) Twitter (126)	979 YouTube (155) Facebook (794) Twitter (30)	25	N/A	N/A
Telephone participants	7	N/A	N/A	N/A	N/A
Total public meeting audience	N/A	N/A	N/A	N/A	1,034

\*Correction made to 2018 statistic by LAO Communications Services

## STATISTICS

### Questions Posed to the Committee and Panel in 2020

Online (Twitter/Facebook/e-mail)	20
Telephone	3
In person	4

## SURVEY RESULTS (POSTMEETING)

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

Social media	75%
Newspaper ad	0
MLA	0
Assembly website	0
Employer	25%

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

In person	0
Alberta Assembly TV	1
Assembly website	3
Facebook Live	2
Twitter Live	0
No response	2

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

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

***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	1
36 to 45	0
46 to 55	1
56 to 65	3
66+	3

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

Edmonton	6
Calgary	2

## **VII. SCHEDULE OF ANNUAL PUBLIC MEETINGS: 2000-2020**

<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
October 29, 2020	Edmonton

## **VIII. FINANCIAL RESULTS FOR 2019-2020**

During the 2019-2020 fiscal year the Alberta Heritage Savings Trust Fund earned an annual return of (5.1) per cent and realized a 10-year annualized rate of return of 8.4 per cent, outperforming policy benchmarks of 0.8 per cent and 8.0 per cent respectively. The Fund's market value as of March 31, 2020, was \$16.3 billion, an increase of \$1.9 billion from the previous year.

The net income of the Heritage Fund during 2019-2020 was \$1.3 billion. As required by the *Alberta Heritage Savings Trust Fund Act*, the Fund retained \$287 million of its net income for inflation-proofing, with the remaining \$1.031 billion transferred to the General Revenue Fund.

As of March 31, 2020, the Fund's asset portfolio consisted of equity investments (44.8 per cent), inflation-sensitive and alternative investments (34.9 per cent), fixed income and money market investments (19.5 per cent) and other strategic opportunities (0.8 per cent).

Highlights of the financial results for 2019-2020 are contained in "The 2019-20 Year in Review," an excerpt from the Alberta Heritage Savings Trust Fund 2018-2019 annual report (see Appendix I).

## The 2019–20 Year in Review

The 2019-20 fiscal year was turbulent for financial markets and that is reflected in the performance of the Heritage Trust Fund. The first three quarters of the fiscal year were positive for the Fund, while the fourth quarter experienced sharp and drastic declines in asset valuations in all asset classes around the world.

Until February, there were many reasons for investor sentiment to be positive. Expectations that the risk of a recession had moderated. A “Phase One” trade deal between the United States and China was agreed upon. Consumer sentiment was high and employment remained resilient. The energy sector in Canada was performing well. Much of the economic data coming out was positive for the risk assets of the Fund such as Equities, and this contributed positively to the income generation of the Fund.

The rally reversed sharply in the fourth fiscal quarter. The emergence of the COVID-19 virus caused widespread panic. Lockdowns began in China and then cascaded throughout the rest of the world. There was a sharp sell-off of risk assets and obtaining liquidity through fixed income quickly became

expensive. Central banks responded to the market crash by taking a “whatever it takes” approach to backstopping the economy and providing liquidity to the market; however, the relief would take some time to be felt. Market volatility throughout the month of March persisted for a day count that had not been witnessed since 2008, and tripping circuit breakers that halt the trading of world markets became a frequent event.

Plunging asset valuations affected investments throughout the world. Lockdowns caused many people to work from home, and others to lose their jobs due to the closure of non-essential services. State of Emergency orders were issued with no end in sight.

Although the fourth fiscal quarter was difficult, central bank intervention has improved the situation from the lows experienced in late March. A patient approach to investing is necessary in ensuring the long-term value of the Heritage Fund. It is unclear what the path to recovery will look like or what the long-term effects of the lockdowns will be on the economy. The Fund will continue to be monitored and opportunities to recoup losses will be sought.

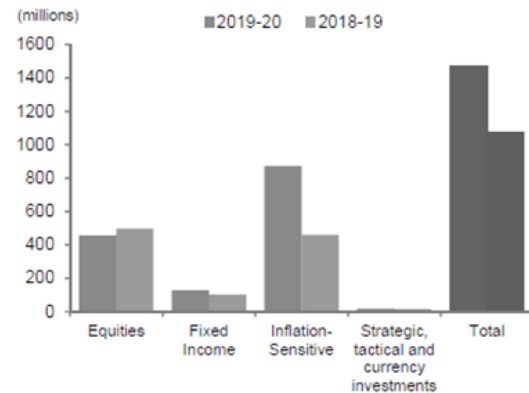
## INVESTMENT INCOME

The Heritage Fund earned gross investment income for the fiscal year ending March 31, 2020 of \$1,471 million, an increase of \$400 million over the last fiscal year. Investment expenses for the year were \$153 million, resulting in net investment income of \$1,318 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 \$287 million, based on the Alberta Consumer Price Index increase of 1.8 per cent.

Actual net income was \$163 million more than the \$1,155 million projected in *Budget 2019*, despite negative performance. Investment income is booked throughout the year and transferred at year end. Income is not reduced unless a loss is realized. Depressed assets that are not sold below their book values have the chance to recover, preserving income that will later be transferred to the GRF.

Inflation sensitive and alternative assets contributed 59 per cent of the total investment income for the Fund. The asset class added \$872 million in fiscal 2019-20, outpacing the prior year by \$411 million. Equities contributed \$455 million, which was \$40 million less than the prior year. Fixed income contributed \$126 million, \$25 million more than the prior year. Strategic opportunities provided \$18 million in income, up \$4 million from the prior year.

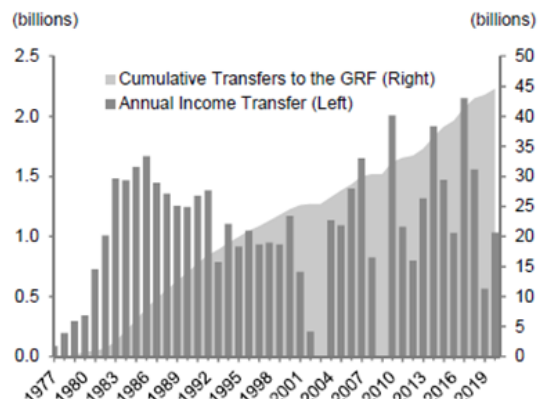
Investment Income by Asset Class



## INCOME TRANSFER AND INFLATION-PROOFING

Established in 1976, the Heritage Fund has earned \$44.8 billion in accumulated net income as of March 31, 2020, of which \$4.2 billion has been retained for inflation proofing. Income transfers to the General Revenue Fund commenced in 1982-83, and since then, \$40.8 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 \$44.5 billion to the benefit of Albertans since its creation in 1976.

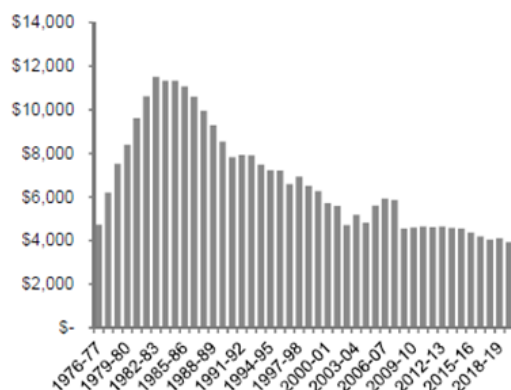
Income and Cumulative Transfer to GRF



Cumulative inflation since the Fund's inception in 1976 has caused prices to increase more than four times. The following chart shows how inflation and population growth have 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 \$3,920 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 to pay for government services. 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 growth of the Province has increased by more than 130 per cent since 1976.



Market Value Inflation Adjusted Per Capita  
(2020 dollars)



## INVESTMENT EXPENSES

The Heritage Fund's investment expenses were \$153 million for the fiscal year-ended March 31, 2020, \$19 million more than the previous year. The expenses for the year were \$23 million more than projected in *Budget 2019*. The projected investment expenses in the budget do not include performance based fees which are volatile and difficult to forecast. Investment expenses in fiscal 2019-20 were 0.9 per cent of the average fair value of investments compared to 0.7 per cent during the previous year. The increase in fees was due to performance expenses associated

with the strength in market returns over the first three quarters. Clawbacks in performance fees are expected when markets deteriorate and are reflected in subsequent periods.

### Investment Expenses

(millions)	2020	2019
Total investment expenses	\$153	\$134
Average Fair Value of Investments	\$17,443	\$17,908
Per cent of investments at average fair value	0.88%	0.75%

## ASSET MIX

Fiscal year-end asset values as of March 31, 2020 were heavily impacted by the COVID-19 pandemic. The fair value of the investments in the Fund was \$16.7 billion while at the same time last year it was \$18.2. Write downs to real estate and infrastructure assets that were completed at quarter-end brought the mix closer in line with targets, as these assets lagged the swift decline experienced in liquid assets such as Equities.

Equities hold the largest weight in the overall portfolio, at 44.8 per cent, an increase from 42.3 per cent at the end of last year. The asset class remains under the 50 per cent long-term target set in the SIP&G. Inflation sensitive and alternative assets represented 34.9 per cent of the overall portfolio at year-end, a decrease from 37.6 per cent. The long-term target

### Asset Mix (Long-term Target Asset Mix)

	March 2020	March 2019	Policy Range
<b>Fixed Income and Money Market (20%)</b>	<b>19.5%</b>	<b>19.1%</b>	<b>15-45%</b>
Deposits and short-term	0.4%	0.6%	0-25%
Bonds and mortgages	19.1%	18.5%	10-35%
<b>Inflation-Sensitive and Alternative Investments (30%)</b>	<b>34.9%</b>	<b>37.6%</b>	<b>15-40%</b>
Real estate	21.0%	24.0%	10-20%
Infrastructure	11.2%	10.6%	5-15%
Renewable resources	2.7%	3.0%	0-5%
<b>Equities (50%)</b>	<b>44.8%</b>	<b>42.3%</b>	<b>35-70%</b>
Canadian	7.4%	8.1%	5-15%
Global developed	25.1%	23.5%	20-65%
Emerging markets	3.5%	3.2%	0-10%
Private	8.8%	7.5%	0-10%
<b>Strategic Opportunities</b>	<b>0.8%</b>	<b>1.0%</b>	<b>0-5%</b>

for this asset class is 30 per cent, however, the asset manager has been given a mandate to overweight asset classes that they believe will generate higher value over the long-term. Fixed income increased to 19.5 per cent from 19.1 per cent, maintaining a weight very close to the 20 per cent long-term target.

Strategic opportunities, which are investments that do not fit directly into any of the asset classes, decreased to 0.8 per cent from 1.0 per cent of the asset base.

