

Standing Committee on The Alberta Heritage Savings Trust Fund

2021 Committee Annual Report

June 2022



**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

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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 2021, pursuant to section 6(4)(c) of the *Alberta Heritage Savings Trust Fund Act*.

Sincerely,

[Original signed by]

Garth Rowsell, MLA
Chair, Standing Committee on the
Alberta Heritage Savings Trust Fund

MEMBERS OF THE STANDING COMMITTEE ON THE ALBERTA HERITAGE SAVINGS TRUST FUND

30th Legislature

Garth Rowsell*

Chair

MLA, Vermilion-Lloydminster-Wainwright (UC)

Matt Jones†

Deputy Chair

MLA, Calgary-South East (UC)

Hon. Ronald Orr‡

Chair

MLA, Lacombe-Ponoka (UC)

Shane C. Getson§

Deputy Chair

MLA, Lac Ste. Anne-Parkland (UC)

Hon. Tracy L. Allard**
MLA, Grande Prairie (UC)

Hon. Shannon Phillips
MLA, Lethbridge-West (NDP)

Hon. David Eggen
MLA, Edmonton-North West (NDP)

Pat Rehn††
MLA, Lesser Slave Lake (UC)

Michaela L. Glasgow‡‡
MLA, Brooks-Medicine Hat (UC)

Peter Singh
MLA, Calgary-East (UC)

Hon. Christina Gray
MLA, Edmonton-Mill Woods (NDP)

Searle Turton§§
MLA, Spruce Grove-Stony Plain (UC)

Hon. Grant R. Hunter***
MLA, Taber-Warner (UC)

Hon. Muhammad Yaseen†††
MLA, Calgary-North (UC)

Hon. Whitney Issik‡‡‡
MLA, Calgary-Glenmore (UC)

* Deputy Chair from February 25, 2021, and Chair from October 25, 2021

† Deputy Chair from October 25, 2021

‡ Chair and Committee Member to October 25, 2021

§ Deputy Chair and Committee Member to February 25, 2021

** Committee Member from October 25, 2021

†† Committee Member from October 25, 2021

‡‡ Committee Member to February 25, 2021

§§ Committee Member to February 25, 2021

*** Committee Member from October 25, 2021

††† Committee Member from February 25, 2021, to October 25, 2021

‡‡‡ Committee Member from February 25, 2021, to October 25, 2021

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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.

The Committee authorized the use of videoconferencing 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 2021

The following motions were passed at Committee meetings in 2021, indicating that the mandate of the Committee and the mission of the Fund have been fulfilled.

January 27, 2021, Meeting

MOVED by Mr. Getson that the Standing Committee on the Alberta Heritage Savings Trust Fund receive the 2020-21 second-quarter report of the Alberta Heritage Savings Trust Fund.

May 7, 2021, Meeting

MOVED by Mr. Singh that the Standing Committee on the Alberta Heritage Savings Trust Fund receive the 2020-21 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. Rowswell that the Standing Committee on the Alberta Heritage Savings Trust Fund approve the draft annual report of its activities during the 2020 year.

June 25, 2021, Meeting

MOVED by Ms Issik that the Standing Committee on the Alberta Heritage Savings Trust Fund approve the 2020-21 annual report on the Alberta heritage savings trust fund.

MOVED by Mr. Rowswell that the Standing Committee on the Alberta Heritage Savings Trust Fund hold the 2021 public meeting at the Edmonton Federal Building and decide on the date and format at the Committee's next meeting.

MOVED by Ms Issik that the Standing Committee on the Alberta Heritage Savings Trust Fund direct Legislative Assembly Office Communications Services to prepare a draft communications plan in support of the 2021 public meeting, including providing cost information for using a moderated teleconference system, and that the Chair be authorized to approve the communications plan after it has been made available to the Committee for review.

October 15, 2021, Meeting

MOVED by Ms Lovely that the Standing Committee on the Alberta Heritage Savings Trust Fund receive the 2021-22 first-quarter report on the Alberta Heritage Savings Trust Fund.

MOVED by Ms Lovely that the Standing Committee on the Alberta Heritage Savings Trust Fund hold the annual public meeting virtually on Thursday, November 25, 2021, from 7 to 9 p.m.

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

Mrs. Michaela Frey for Hon. Mrs. Whitney Issik
Ms Jackie Lovely for Hon. Mr. Ronald Orr
Mr. Tany Yao for Hon. Mr. Muhammad Yaseen

V. 2021 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 2021 public meeting took place on November 25, 2021, at the Edmonton Federal Building, in Edmonton, Alberta.

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

Garth Rowswell, MLA, Chair
Matt Jones, MLA, Deputy Chair

Hon. Tracy L. Allard, MLA	Hon. Shannon Phillips, MLA
Hon. David Eggen, MLA	Pat Rehn, MLA
Hon. Christina Gray, MLA	Peter Singh, MLA
Hon. Grant R. Hunter, MLA	

Ministry of Treasury Board and Finance Participants

Lowell Epp, Assistant Deputy Minister, Treasury and Risk Management
Brittany Jones, Senior Manager, Portfolio Analytics and Research
Athana Mentzelopoulos, Deputy Minister
Stephen J. Thompson, Executive Director, Capital Markets

Alberta Investment Management Corporation (AIMCo) Participants

Dale MacMaster, Chief Investment Officer
Amit Prakash, Chief Investment Strategy Officer

Public Participants

There were no in-person attendees due to the committee room galleries being closed to the public. Options for public participation consisted of phoning in, e-mail, and social media.

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 watch the broadcast of the meeting on television as well as the online stream and phone in, e-mail and tweet questions about the Fund. The meeting was promoted 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 2021 ANNUAL PUBLIC MEETING

Five-year Comparison of Public Meeting Audience Reach

	2021	2020	2019	2018	2017
Television	*Unable to track Alberta Assembly TV stats	*Unable to track Alberta Assembly TV stats	*Unable to track Alberta Assembly TV stats	*Unable to provide viewership stats	*Unable to provide viewership stats
Online	62	127	68	49	35
In person	N/A	3	17	21	38
Social media	374 YouTube (154) Facebook (74) Twitter (146)	1,024 YouTube (178) Facebook (720) Twitter (126)	979 YouTube (155) Facebook (794) Twitter (30)	25	N/A
Telephone participants	0	7	N/A	N/A	N/A

STATISTICS

Questions Posed to the Committee and Panel in 2021

Online (Twitter/Facebook/YouTube)	5
E-mail	11
Telephone	0
In person	N/A

SURVEY RESULTS (POSTMEETING)

How did you hear about the meeting?

Social media	75%
Newspaper ad	0
MLA	0
Assembly website	0
Media Coverage	25%

How did you watch the public meeting?

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

How engaging did you find the public meeting?

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

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

Yes	50%
No	50%

To which age group do you belong?

18 to 25	1
26 to 35	0
36 to 45	0
46 to 55	0
56 to 65	3
66+	0

Where do you currently reside?

Edmonton	2
Lac La Biche	1

VII. SCHEDULE OF ANNUAL PUBLIC MEETINGS: 2000-2021

Meeting Date	Location
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
November 25, 2021	Edmonton

VIII. FINANCIAL RESULTS FOR 2020-2021

During the 2020-2021 fiscal year the Alberta Heritage Savings Trust Fund earned an annual return of 16.1 per cent and realized a 10-year annualized rate of return of 8.9 per cent, outperforming policy benchmarks of 15.5 per cent and 8.6 per cent respectively. The Fund's market value as of March 31, 2021, was \$17.8 billion, an increase of \$1.5 billion from the previous year.

The net income of the Heritage Fund during 2020-2021 was \$1.354 billion. As required by the *Alberta Heritage Savings Trust Fund Act*, the Fund retained \$146 million of its net income for inflation-proofing, with the remaining \$1.208 billion transferred to the General Revenue Fund.

As of March 31, 2021, the Fund's asset portfolio consisted of equity investments (50.3 per cent), inflation-sensitive and alternative investments (30.5 per cent), fixed income and money market investments (18.7 per cent) and other strategic opportunities (0.5 per cent).

Highlights of the financial results for 2020-2021 are contained in "The 2020-21 Fiscal Year in Review," an excerpt from the Alberta Heritage Savings Trust Fund 2020-2021 annual report (see Appendix).



The 2020-21 fiscal year in review

At the end of the 2019-20 fiscal year, the impact of the pandemic was difficult to predict and global equity markets fell significantly in March 2020 after reaching record levels in mid-February 2020. However, the equity market rebounded as central banks responded quickly with actions that caused interest rates to fall dramatically while governments also injected large amounts of stimulus into the economy. Global equity markets fully rebounded by autumn 2020 and were trading near new record highs by the end of the Fund's fiscal year.

The Fund had a strong year, posting an overall return of 16.1 per cent in 2020-21. Leading the way were the Fund's equities with a 37.9 per cent return of during the year. Fixed income investments provided a 4.8 per cent return due to declining interest rates. However, the inflation sensitive and alternatives asset class had a difficult year, posting a return of negative 7.8 per cent.

Over the past five years, the Fund has earned an annualized return of 7.4 per cent. The highest performance came from equities with an 10.2 per cent return during the period. The five-year annualized return on inflation sensitive and infrastructure assets was 4.3 per cent and the fixed income return was 3.9 per cent.

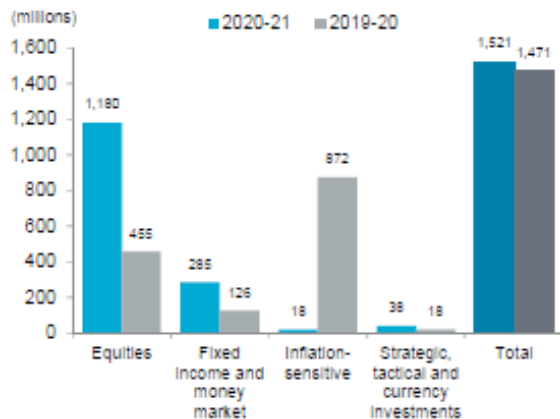
Investment income

Investment earnings from the Fund during the year totaled \$1,354 million, based on gross earnings of \$1,521 million less investment expenses of \$167 million. These earnings were \$291 million higher than what was estimated in *Budget 2020* and \$36 million higher than in 2019-20.

Equity investments produced earnings of \$1,180 million during 2020-21, an increase of \$725 million over the previous year. Earnings from fixed income investments grew by \$159 million during the year to \$285 million. Inflation sensitive and alternative investments provided \$18 million in earnings, a decrease of \$854 million from the results in 2019-20. Finally, strategic investments contributed earnings of \$38 million, \$20 million higher than the previous year.

The Fund retained \$146 million of its earnings for inflation proofing, which was based on the Alberta Consumer Price Index increase of 1.0 per cent during the year. The remaining \$1,208 million was transferred to the Province's General Revenue Fund.

INVESTMENT INCOME BY ASSET CLASS



Transfers and inflation

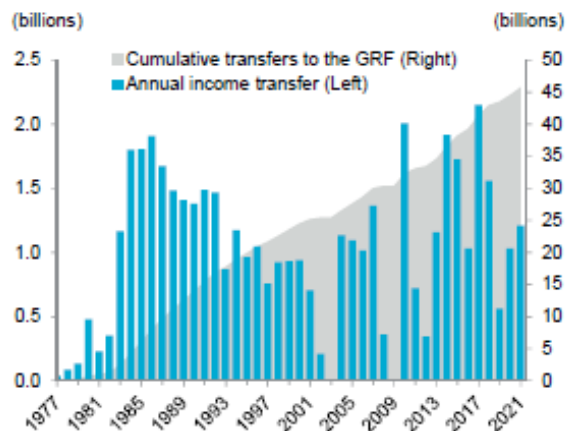
Since the Fund was established in 1976, it has received deposits of \$12.0 billion from non-renewable resource revenues and \$3.9 billion from budget surpluses in 2005-06 to 2007-08. During that time, the Fund has produced \$46.2 billion in investment earnings.

The Fund has been used pay for capital projects, to seed other endowments and for government priorities through transfers to the General Revenue Fund. Between 1976 and 1995, \$3.0 billion was used to pay for capital projects and \$655 million was transferred to Provincial endowment funds.

Income transfers from the Fund to the General Revenue Fund began in 1982-83 and since then, transfer to it have totaled \$42.0 billion. Earnings of \$4.4 billion have been retained in the Fund for inflation proofing.

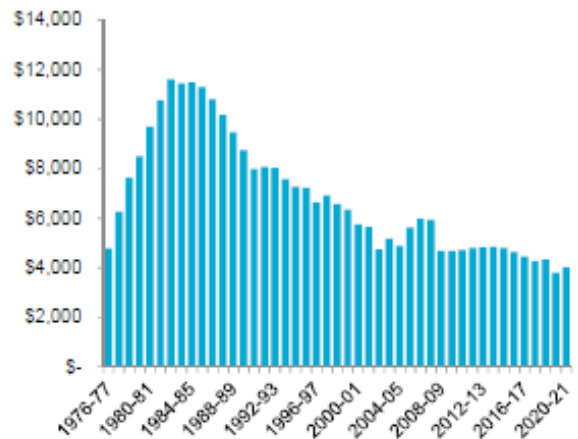
The Fund's market value per capita has declined significantly since peaking in 1983 when the value of the Fund was about \$11,600 per Albertan. As of the end of 2020-21, the market value is about \$4,000 per Albertan. This decrease has been caused by three factors. First, deposits into the Fund were decreased early in the 1980s and eliminated in 1987. Secondly, most of the Fund's earnings have been transferred out of the Fund and used to pay for government priorities. Finally, Alberta's population has more than doubled since 1976, growing from approximately 1.9 million people to over 4.4 million people.

INCOME AND CUMULATIVE TRANSFER TO GRF



MARKET VALUE INFLATION ADJUSTED PER CAPITA

(2021 dollars)



Investment expenses

The Fund's investment expenses were \$167 million during the 2020-21 fiscal year, \$14 million higher than the previous year and \$52 million above the Budget 2020 estimate. The increase in fees was due primarily to performance fees that resulted from the strong, value added returns produced during the year.

INVESTMENT EXPENSES

(millions)	2021	2020
Total investment expenses	\$167	\$153
Increase/decrease in average investments	1.0%	-2.6%
Investment expense per dollar invested	0.9%	0.9%

Asset mix

The Fund's asset allocation at the end of the fiscal year were relatively close to the target asset allocation. Equities hold the largest weight in the portfolio at 50.3 per cent, an increase from 44.8 per cent at the end of last year. During the year, the proportion of fixed income investments declined slightly to 18.7 per cent from 19.5 per cent while inflation sensitive and alternative investments decreased from 34.9 per cent to 30.5 per cent. Strategic opportunities, which are investments that do not fit directly into any of the asset classes, decreased to 0.5 per cent from 0.8 per cent of the portfolio.

The asset manager has been given a mandate to overweight asset classes that they believe will generate higher value over the long-term. However, the large shifts in asset class weights was primarily due to a combination of very strong equity returns that caused the value of equities to increase significantly and the negative returns that caused a decline in the value of the inflation sensitive and alternative investments held by the Fund.

ASSET MIX (LONG-TERM TARGET ASSET MIX)

	March 2021	March 2020	Policy range
Fixed income and money market (20%)	18.7%	19.5%	15-45%
Deposits and short-term	0.5%	0.4%	0-25%
Bonds and mortgages	18.1%	19.1%	10-35%
Inflation-sensitive and alternative investments (30%)	30.5%	34.9%	15-40%
Real estate	19.1%	21.0%	10-20%
Infrastructure	9.0%	11.2%	5-15%
Renewable resources	2.4%	2.7%	0-5%
Equities (50%)	50.3%	44.8%	35-70%
Canadian	8.4%	7.4%	5-15%
Global developed	28.7%	25.1%	20-65%
Emerging markets	4.5%	3.5%	0-10%
Private	8.7%	8.8%	0-10%
Strategic opportunities	0.5%	0.8%	0-5%