

Standing Committee on the Alberta Heritage Savings Trust Fund

2015/2016 Report

Covering Activities from
29th Legislature: December 2015 to December 2016

March 2017



**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
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March 9, 2017

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 the **29th Legislature: December 2015 to December 2016**, 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, First Session)

BARB MILLER, Chair

MLA, Red Deer-South (ND)

CHRIS NIELSEN, Deputy Chair

MLA, Edmonton-Decore (ND)

SCOTT CYR

MLA, Bonnyville-Cold Lake (W)

MIKE ELLIS

MLA, Calgary-West (PC)

ANNIE McKITRICK

MLA, Sherwood Park (ND)

MARIE RENAUD

MLA, St. Albert (ND)

GRAHAM SUCHA

MLA, Calgary-Shaw (ND)

WES TAYLOR

MLA, Battle River-Wainwright (W)

DR. BOB TURNER

MLA, Edmonton-Whitemud (ND)

MEMBERS (29th Legislature, Second Session)

CRAIG COOLAHAN, Chair**

MLA, Calgary-Klein

KIM SCHREINER, Deputy Chair*

MLA, Edmonton-Decore (ND)

SCOTT CYR

MLA, Bonnyville-Cold Lake (W)

THOMAS DANG*

MLA, Edmonton-South West (ND)

MIKE ELLIS

MLA, Calgary-West (PC)

TREVOR HORNE*

MLA, Spruce Grove-St. Albert (ND)

ANNIE McKITRICK

MLA, Sherwood Park (ND)

WES TAYLOR

MLA, Battle River-Wainwright (W)

DR. BOB TURNER

MLA, Edmonton-Whitemud (ND)

*These Members were appointed on March 9, 2016, to replace:

CHRIS NIELSEN, Deputy Chair

MLA, Edmonton-Decore (ND)

MARIE RENAUD

MLA, St. Albert (ND)

GRAHAM SUCHA

MLA, Calgary-Shaw (ND)

** This Member was appointed on June 2, 2016, to replace:

BARB MILLER, Chair

MLA, Red Deer-South (ND)

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STANDING COMMITTEE ON THE ALBERTA HERITAGE SAVINGS TRUST FUND

DECEMBER 2015 – DECEMBER 2016 ANNUAL REPORT

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-streamed live on the internet and archived. These audio archives as well as 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, making the report 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 has responsibility 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 IN SUPPORT OF THE 2015-2016 REPORTING PERIOD

The following includes motions passed at Standing Committee meetings held from September 23, 2015, to December 31, 2016, supporting the 2015-2016 fiscal year cycle of the Standing Committee on the Alberta Heritage Savings Trust Fund, indicating that the mandate of the Committee and the mission of the Fund have been fulfilled.

March 2, 2016, Meeting:

MOVED by Ms. McKitrick that the Standing Committee on the Alberta Heritage Savings Trust Fund receive the 2015-2016 Second- and Third-Quarter Reports on the Alberta Heritage Savings Trust Fund as presented.

MOVED by Dr. Turner that the 2016 annual public meeting be held in the Edmonton Federal Building at a date to be determined.

MOVED by Ms. McKitrick that LAO Communications be directed to draft a communications plan outlining options for the 2016 public meeting for approval at the June 2016 Committee meeting.

Official Substitutes as per Standing Order 56(2.1)-(2.4)
Jonathon Carson, MLA, for Marie Renaud, MLA

June 20, 2016, Meeting:

MOVED by Mr. Dach that the Standing Committee on the Alberta Heritage Savings Trust Fund approve the 2015-2016 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 2016 public meeting for Thursday, October 27, 2016, from 7 p.m. to 9 p.m.

MOVED by Ms McKitrick that the Standing Committee on the Alberta Heritage Savings Trust Fund approve the draft communications plan as presented by Legislative Assembly Office Communications.

MOVED by Mr. Horne that the Standing Committee on the Alberta Heritage Savings Trust Fund authorize the Chair and Deputy Chair to approve advertisements and other documents required to hold the public meeting.

Official Substitutes as per Standing Order 56(2.1)-(2.4)
Lorne Dach, MLA, for Bob Turner, MLA
Prab Gill, MLA, for Mike Ellis, MLA
Don MacIntyre, MLA, for Wes Taylor, MLA

V. MEETINGS HELD AND MOTIONS PASSED IN SUPPORT OF THE 2016-2017 REPORTING PERIOD

The following includes motions passed at the Standing Committee meeting held on September 12, 2016, supporting the 2016-2017 fiscal year cycle of the Standing Committee on the Alberta Heritage Savings Trust Fund, indicating that the mandate of the Committee and the mission of the Fund have been fulfilled.

September 12, 2016, Meeting:

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

VI. 2016 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 2016 public meeting took place on October 27, 2016, 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

Annie McKittrick, MLA

Lorne Dach, MLA*

Robert Turner, MLA

Mike Ellis, MLA

Tany Yao, MLA**

Trevor Horne, MLA

*substitution for Thomas Dang, MLA

**substitution for Wes Taylor, MLA

Other Members in Attendance

David Hanson, MLA

Department of Treasury Board and Finance Participants

Lorna Rosen, Deputy Minister

Rod Babineau, Manager, Portfolio Analysis, Capital Markets

Alberta Investment Management Corporation (AIMCo) Participants

Kevin Uebelein, Chief Executive Officer

Dale MacMaster, Chief Investment Officer

Public Participants

Judy Houle

Jeff Trainor

Rory Koopmans

Justin Vung

Zeny Marti

Cliff Wilkinson

Peter McCaffrey

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. This year's meeting was held on October 27, 2016, in the Edmonton Federal Building.

An educational video on the Heritage Fund was shown at the beginning of the public meeting. The video was edited to reflect the most recent changes to the Fund. 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

	2016	2015	2014	2013	2012
Television	1,000	2,000	1,000	7,000	16,000
Online	22	n/a	41	40	33
In person	12	13	8	33	25
Total public meeting audience	1,034	2,013	1,049	7,073	16,058

STATISTICS

Online viewership

Peak viewers	21
Average viewers	21

Questions posed to the Committee and panel

E-mail	18
Twitter	2
In person	7

How did the audience hear about the meeting?

Radio	X
Newspaper	X
Other	6 (i.e. social media)

The in-person audience age ranges

35-45	4
46-55	X
55-65	1

*only five answered this question

VII. SCHEDULE OF ANNUAL PUBLIC MEETINGS: 2000-2016

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

VIII. FINANCIAL RESULTS FOR 2015-2016 (Direct Quote from the Minister of Treasury Board and Finance's Message in the Annual Report)

In the context of the economic conditions we experienced over the 2015-16 fiscal year, the Heritage Fund performed quite well, providing a 4.7 per cent rate of return while earning \$1.2 billion in net income. Although the fund's performance was lower than in 2014-15, we expected a tough year in 2015-16. In the end, the fund performed better than expected, beating its overall benchmark by 4.3 percentage points as a strong return in the fund's inflation-sensitive and alternative investments helped offset lower-than-expected returns in the fund's global equities portfolio.

Highlights of the financial results for 2015-2016 are contained in The Year in Review, an excerpt from the Alberta Heritage Savings Trust Fund Annual Report, 2015-2016 (see Appendix I).

THE 2015-16 YEAR IN REVIEW

Global growth was lackluster in 2015-2016. Most developed economies had modest economic growth, led by continuing expansion in the US. In developing economies, the story is more diverse. Growth in China remained robust, though it continued to moderate and was recently surpassed by a resurgent India. Commodity-dependent emerging markets such as Russia and Brazil continued to struggle with low commodity prices.

The US economy posted solid growth based on continued strength in consumer confidence as a robust labour market drove the unemployment rate down to 5.0 per cent and encouraged wage growth. The improving economy allowed the US Federal Reserve to increase the Federal Funds rate for the first time in 8 years. The Fed had been telegraphing the rate hike for most of 2015, leading to a strong appreciation in the US dollar. This had a dampening effect on US trade and is pressuring the Fed to take a more cautious approach to future tightening.

While the US moved towards tighter monetary policy, other global central banks moved in the opposite direction. Earlier in 2016, the Bank of Japan joined a growing number of rich world central banks paying negative interest rates on bank reserves, including the European Central Bank (ECB). This came after the ECB emulated Japan by introducing a monthly asset purchase program in early 2015. Despite these efforts, core inflation has failed to rise above one per cent in both countries, much less than their shared target of two per cent. The combination of global monetary expansion and weak inflation expectations have suppressed global bond yields.

China continued to be a major contributor to the global economy even as growth moderates and the Chinese economy rebalances towards domestic consumption and away from investment and exports. This moderation has caused hiccups for the global economy. China was at the centre of two separate bouts of global financial instability, first in June 2015 and again in January 2016. In both instances, uncertainty about China's growth caused a rout in Chinese equities, which had ripple effects on global financial markets. India's growth continued to accelerate benefiting from lower energy prices and outpacing China for all of 2015. The decline in global oil prices has battered the economies of commodity-reliant emerging markets. Russia, Brazil and Venezuela each fell into deep recessions.

The price of West Texas Intermediate (WTI) crude oil opened 2015-16 fiscal year down 50 per cent from mid 2014. Except for a brief recovery in the first quarter of the fiscal year, prices continued to fall and closed 2015-16 down a further 20 per cent at US\$37 per barrel. Falling US production was more than offset by rising OPEC production, led by Iraq. More recently, Iranian production has started to ramp-up after international sanctions were lifted, though recent disruptions in Nigeria and Libya demonstrate the uncertainty of oil supply in politically unstable regions.

Global equity markets struggled, with the S&P 500 down 0.2 per cent over the 2015/2016 fiscal year. The energy intensive TSX performed far worse declining 6.6 per cent. With the Canadian economy hobbled by low oil prices, the Bank of Canada followed up its January 2015 rate cut with another cut in July 2015. With the BoC rate cut, bond yields fell further in the fiscal year. Diverging monetary policy compared with the US and falling oil prices caused the Canadian dollar to fall to the lowest level in over a decade in January. However, a modest recovery in oil prices allowed the exchange rate to close out the fiscal year at 77 US ¢/C\$, just two cents down from the start of the fiscal year. The five-year Government of Canada bonds closed at 0.68 per cent and the ten-year closed at 1.23 per cent, both were more or less in line with yields in April 2015.

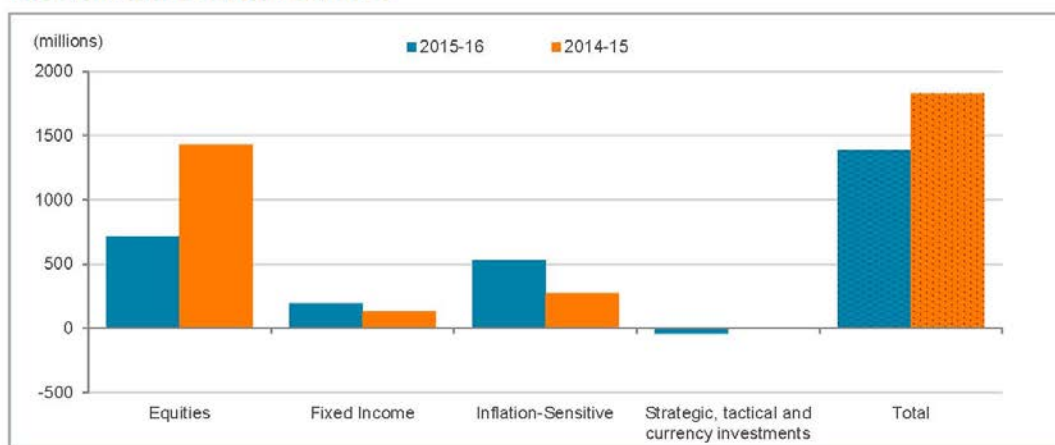
INVESTMENT INCOME

The Heritage Fund earned a gross investment income of \$1,388 million for the year ended March 31, 2016. This was a decrease of \$437 million from the \$1,825 million earned in the previous year. Expenses for the year were \$150 million, and the net investment income was \$1,238 million. The legislation of the Fund requires that an amount be retained for inflation-proofing. This year the amount was \$209 million, based on an increase to Alberta Consumer Price Index of 1.4 per cent. The remainder of \$1,029 million was transferred to the province's General Revenue Fund, as required by the Fund's legislation.

The net income for the year was \$331 million less than the income of \$1,719 million projected in *Budget 2015 (October)*. The difference was primarily due to weaker-than-expected equity markets during the latter half of the fiscal year. The Canadian Dollar rallied in the final quarter of the fiscal year which decreased the value of some of our foreign investments when converted back to Canadian dollars.

Even though equities did not have a great year for the Fund on a fair value basis, the equities assets in the Fund were still the primary contributor to earnings during the year because of gains earned in previous years that were realized this fiscal year. They grossed \$710 million or 51 per cent of total income earned by the Heritage Fund. This amount was less than half of the \$1,429 million that was earned from equities in the previous year. Fixed income earned \$191 million in 2015-16, an increase from the \$130 million in the previous year. Inflation-Sensitive and Alternatives Investments earned \$529 million in during the fiscal year compared to \$269 million in 2014-15. The substantial increase in income is almost totally attributable to the sale of Autopista Central de Chile, which occurred in 2016. The Infrastructure asset class, which is in Inflation-Sensitive and Alternative Investments, returned \$260 million in income more than the previous year.

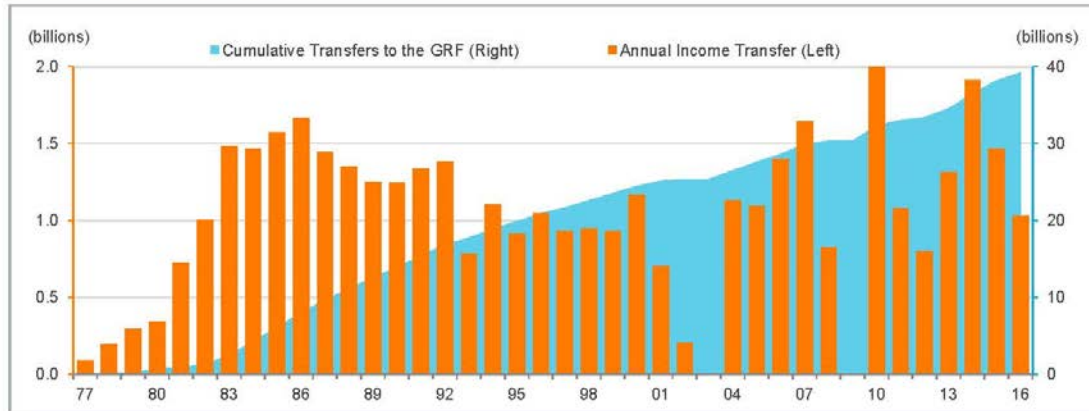
Investment Income by Asset Class



INCOME TRANSFER AND INFLATION-PROOFING

Since the Fund was established in 1976, it has earned \$38.4 billion in accumulated net income, of which \$3.1 billion has been retained for inflation-proofing. An additional \$3.9 billion from the Fund was made available from 1976 to 1995 to pay for capital projects and other endowments in Alberta. In all, the Heritage Fund, since its inception has provided \$39.2 billion to the Province to pay for programs and projects.

Income and Cumulative Transfer to GRF



Cumulative inflation since the Heritage Fund's inception has caused prices to increase four times from their 1976 level, meaning what cost \$1 in 1976 now costs more than \$4. The chart below illustrates how inflation has decreased the value of the Fund and underscores the importance of inflation-proofing. The market value per capita, in real dollars, reached its peak in 1983 when the Fund was worth slightly more than \$11,074 per capita in 2016 dollars. In 1987, deposits into the Fund were halted. Since 2005 the Fund has been protected against inflation. Since inflation-proofing resumed, combined with investment growth and some ad hoc deposits into the Fund, the per capita value market value has stabilized and the market value per capita value on March 31, 2016 was \$4,265.82 per Albertan.

Market Value Inflation Adjusted Per Capita

(2016 dollars)

