

# Standing Committee on the Alberta Heritage Savings Trust Fund

## 2014/2015 Report

Covering Activities from  
29<sup>th</sup> Legislature: June 2015 to November 2015

March 2016



**Standing Committee on the  
Alberta Heritage Savings Trust Fund**  
Legislative Assembly of Alberta  
3<sup>rd</sup> Floor, 9820 – 107 Street NW  
Edmonton, Alberta T5K 1E7  
780.427.1348  
[committees@assembly.ab.ca](mailto:committees@assembly.ab.ca)



**STANDING COMMITTEE ON THE  
ALBERTA HERITAGE SAVINGS TRUST FUND**

Legislative Assembly of Alberta  
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Edmonton, AB T5K 1E7  
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March 2016

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 **29<sup>th</sup> Legislature: June 2015 to November 2015**, pursuant to section 6(4)(d) of the *Alberta Heritage Savings Trust Fund Act*.

Sincerely,

[original signed by Chair]

Barb Miller, MLA  
Chair, Standing Committee on the  
Alberta Heritage Savings Trust Fund

## **MEMBERS (29<sup>th</sup> 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\***

Calgary-Shaw (ND)

**WES TAYLOR**

Battle River-Wainwright (W)

**DR. BOB TURNER\***

Edmonton-Whitemud (ND)

\*These Members were appointed on October 29, 2015 to replace:

**BRIAN MALKINSON**

MLA, Calgary-Currie (ND)

**RICARDO MIRANDA**

MLA, Calgary-Cross (ND)

**COLIN PIQUETTE**

MLA, Athabasca-Sturgeon-Redwater (ND)

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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-streamed live on the internet and archived. These archives as well as transcripts are available on the Legislative Assembly of Alberta website at [www.assembly.ab.ca](http://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 Legislative Assembly 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 *Savings Management Repeal Act*, which came into force on December 17, 2014, abolished the Alberta Future Fund, the Social Innovation Endowment account, and the Agriculture and Food Innovation Endowment account, which were originally created in spring 2014. Also, the \$200 million transfer from the Heritage Fund to the Alberta Heritage Scholarship Fund that was reserved for trades scholarships, will remain in the Scholarship Fund for that purpose.

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;
- (c) to approve the annual report of the Heritage Fund;
- (d) 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;
- (e) 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 these meetings 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 quarterly 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 2014-2015 REPORTING PERIOD**

The following includes motions passed at Standing Committee meetings held from June 25, 2015 to September 22, 2015, supporting the 2014-2015 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.

##### **June 25, 2015, Meeting:**

**MOVED by Mr Taylor** that the Standing Committee on the Alberta Heritage Savings Trust Fund approve the 2014-2015 Alberta Heritage Savings Trust Fund Annual Report with the clarification noted.

**MOVED by Ricardo Miranda** that the 2015 public meeting of the Standing Committee on the Alberta Heritage Savings Trust Fund be held in Edmonton at a date to be determined.

##### **September 22, 2015, Meeting:**

**MOVED by Mr. Nielsen** that the Standing Committee on the Alberta Heritage Savings Trust Fund receive the 2015-2016 First Quarter Report on the Alberta Heritage Savings Trust Fund.

**MOVED by Mr. Malkinson** that the Standing Committee on the Alberta Heritage Savings Trust Fund schedule the 2015 annual public meeting for Thursday, November 26, from 7 to 9 p.m., subject to the proviso that the Chair may propose an alternate date should the schedule for committees' consideration of main estimates conflict with that date.

##### **September 22, 2015, Meeting:**

**MOVED by Mr. Cyr** that the Standing Committee on the Alberta Heritage Savings Trust Fund approve the 2015 Communications Plan as presented.

**MOVED by Mr. Malkinson** 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 execute the public meeting.

## **V. 2015 ANNUAL PUBLIC MEETINGS**

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, in accordance with the Committee's mandate.

The 2015 public meeting took place on November 26, 2015 at the Edmonton Federal Building, in Edmonton, Alberta.

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

Barb Miller, MLA, Chair  
Chris Nielsen, MLA, Deputy Chair

Scott Cyr, MLA                      Graham Sucha, MLA  
Annie McKittrick, MLA        Wes Taylor, MLA  
Marie Renaud, MLA            Dr. Bob Turner, MLA

### **Department of Treasury Board and Finance Participants:**

Rod Babineau, Manager, Portfolio Analysis, Capital Markets  
Lowell Epp, Assistant Deputy Minister, Treasury and Risk Management  
Stephen Thompson, Executive Director, Capital Markets

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

Darren Baccus, Chief Client Relations and Legal Officer  
Dale MacMaster, Chief Investment Officer

### **Public Participants:**

Dan Bury    Rory Koopmans  
Nicholas Dziuba                                  Doug Pruden  
Nate Glubish                                        Chips Reid  
Paulette Hagel

The objective of the communications plan was to map out how the branch would provide support to the Committee in promoting 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 placed in 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 Thursday, November 26 from 7 to 9 p.m., in the Edmonton Federal Building. Efforts were made to leverage the newly opened Legislative Assembly Visitor Centre and the Borealis Gallery's exhibition of the Magna Carta in order to attract an audience.

The Heritage Fund educational video 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**

	2015	2014	2013	2012	2011
Television	2,000	1,000	7,000	16,000	5,000
Online	n/a	41	40	33	43
In person	13	8	33	25	20
Total public meeting audience	2,013	1,049	7,073	16,058	5,063

The live television broadcast on November 26 from 7 to 9 p.m. reached a total of 2,000 Albertans. The repeat broadcast aired from 9 to 11 p.m. immediately after the live program. It aired only in Edmonton and garnered an audience of 6,000.

**STATISTICS**

**Online viewership:**

Peak viewers	19
Average viewers	15

**Questions posed to the Committee and panel:**

Email	5
Twitter	8
In person	7

**How did the audience hear about the meeting?**

Radio	5
Newspaper	1
Other	1

**The in-person audience age ranges:**

35-45	1
46-55	1
55-65	1

\*only three of the respondents answered this question

***The in-person audience came from:***

Edmonton	1
Sherwood Park	1
Thorhild County	1

\*only three of the respondents answered this question

**VI. SCHEDULE OF ANNUAL PUBLIC MEETINGS: 2000-2015**

<b>Meeting Date</b>	<b>Location</b>
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

## VII. FINANCIAL RESULTS FOR 2014-2015

The financial results for 2014-2015 were measured against the goal set out in the 2013-2016 Alberta Heritage Savings Trust Fund Business Plan:

**GOAL: Maximize long-term returns at a prudent level of risk**

The Heritage Fund had a strong year in 2014-15, generating a 12.5 per cent return and earning more than \$1.6 billion. Net income was higher than expected, due mainly to stronger-than-expected performance in the equity markets and a weakening Canadian dollar, which bolstered the return on the Fund's international investments. At March 31, 2015, the Fund's assets had fair market value of \$17.9 billion. Over the past five years, the fund has managed an 11.7 per cent return on investment and a 10-year average return of 8 per cent.

Highlights of the financial results for 2014-2015 are contained in The Year in Review, an excerpt from the Alberta Heritage Savings Trust Fund Annual Report, 2014-2015 (see Appendix I).

### THE 2014-15 YEAR IN REVIEW

The past fiscal year saw a divergence of fortunes across the global economy. Economic recovery became entrenched in the US and UK, while the Eurozone and Japan continued to suffer from anemic growth and low inflation. The Indian economy showed strength, as other major emerging market economies weakened. Growth in China continued to moderate, while both Brazil and Russia fell into recession.

The US recovery appears to have solidified. Growth was strong with the exception of the first quarter when harsh winter conditions caused the economy to contract for the second year in a row. Over the course of fiscal year 2014-15, 3.1 million jobs were added, the most in 15 years, as the unemployment rate dropped 1.1 percentage points to 5.5 per cent. The improvement allowed the Federal Reserve, by November, to end the bond-buying program that began in 2012. Fed chair Janet Yellen said that if the economy continued to improve, the Fed will hike interest rates before the end of 2015.

Much of the global economy did not fare as well. The European economy showed little improvement, with weak growth, chronic unemployment and falling inflation. Moreover, the perpetual crisis in Greece continued to threaten financial stability. To combat this weakness, the European Central Bank announced an asset purchase program similar in size and design to that of the Federal Reserve program that ended in 2014. As in the EU, the Japanese economy struggled to grow. These problems were exacerbated last year by a three percentage point sales tax hike causing real GDP to contract in the second and third quarters.

In the past, China could be counted on to buoy global growth, but it too has slowed, in part because of measures introduced last year to restrain credit in its frothy real estate markets. Russia's economy was hammered by low oil prices and ongoing effects from the Ukraine crisis that led to sanctions and increased uncertainty. Brazil is suffering from stagflation, with negative GDP growth and rising inflation. India was the lone bright spot among major emerging markets, with growth outpacing China at the end of 2014.

Weak global demand and increasing oil supply caused the price of oil to fall by half over the fiscal year. Higher-than-expected production in war-torn Iraq and Libya added to a surge in supply from North America, where production increased 50 per cent in just five years. The bottom really fell out of the market in November when OPEC declined to cut production to support prices. Prices rebounded somewhat since March, but one and two-year forward prices remained anchored at slightly over \$60 US/bbl, as additional supply from US shale-oil plays stand ready to come online should prices drift much higher. This prevented OPEC from tightening production quotas when they met in June, as the loss in market share would not justify the higher price.

Economic growth in Canada was strong to start the fiscal year, with GDP growth over 3 per cent in the second and third quarters of 2014. Growth slowed as low oil prices started to affect the economy. Real GDP contracted at an annual rate of 0.6 per cent in the first quarter of 2015, as oil and gas investment fell substantially. To head off the negative effects of low oil prices, the Bank of Canada unexpectedly cut interest rates in January. The Canadian dollar depreciated by almost ten per cent against major trading partners over the course of the fiscal year.

Global equity markets continued to see robust returns, with the S&P 500 up 26.2 per cent in Canadian dollar terms over the fiscal year. The same was not true for Canadian markets, with the TSX up just 3.6 per cent as corporations in the energy sector suffered from falling oil prices. Bond yields continued to defy expectations, with the yield on five-year Government of Canada bonds closing out the fiscal year at just 0.77 per cent, and ten-year yields at 1.04 per cent.

## INVESTMENT INCOME

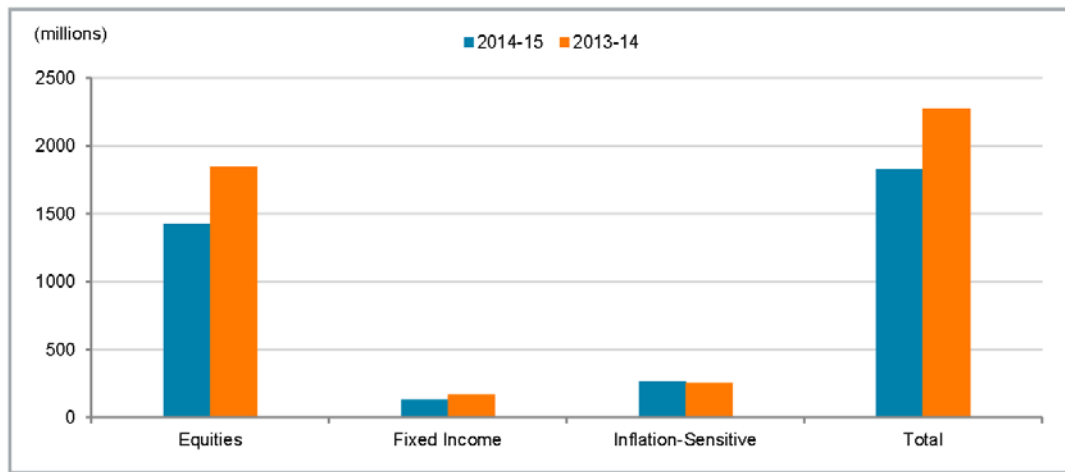
The Heritage Fund earned a gross investment income of \$1,825 million for the year ended March 31, 2015, a decrease of \$447 million from the previous year. Expenses for the year were \$147 million, and the net investment income was \$1,678 million. The amount retained for inflation-proofing was \$210 million. The remainder \$1,468 million was transferred to the province's General Revenue Fund.

The actual net income for the year was \$225 million more than the income of \$1,453 million projected in *Budget 2014*. The difference was primarily due to stronger than expected equity markets during the fiscal year and weakening Canadian Dollar that fell to \$0.79 USD at March 31, 2015, boosting the return on the Fund's foreign assets.

Equities were the primary contributor to earnings during the year, grossing \$1,429 million or 78 per cent of total income earned by the Heritage Fund. This amount was slightly less than the \$1,842 that was earned from equities in 2013-14. Fixed income earned \$130 million in 2014-15, declining from the \$171 million in the previous year. Fewer assets invested in fixed income and lower interest rates contributed to the decline in interest income. Inflation-sensitive and alternatives investments earned \$269 million compared to \$256 million in 2013-14.

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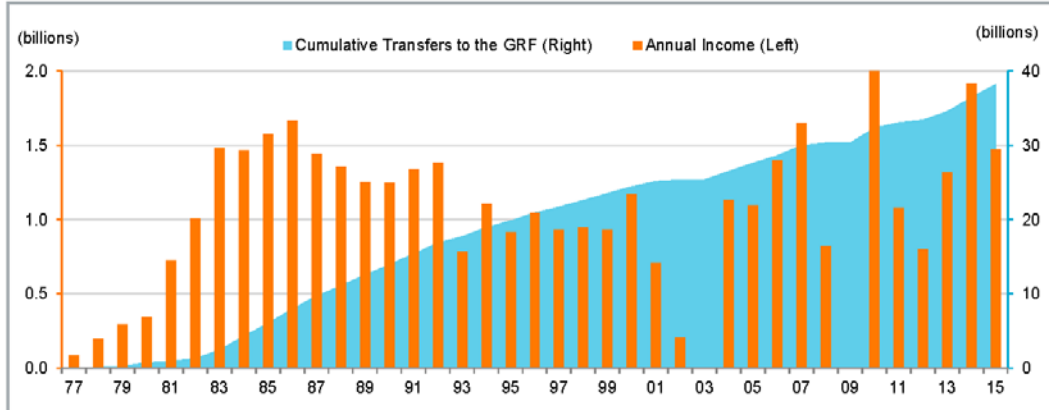
### Investment Income by Asset Class



## INCOME TRANSFER AND INFLATION-PROOFING

After expenses of \$147 million and inflation-proofing of \$210 million, the remaining \$1,468 million of earned income was transferred to the General Revenue Fund. The Fund was established in 1976 and since then it has earned \$37.2 billion in income, of which \$2.9 billion has been retained for inflation-proofing. An additional \$3.5 billion from the Fund was made available from 1976 to 1995 to pay for capital projects in Alberta. In 2014-15, \$200 million from the Heritage Fund was transferred to the Alberta Heritage Scholarship Fund, \$3 million was transferred to the Department of Agriculture, and \$52 million to the Access to the Future fund.

### 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 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 \$11,700 per capita in 2015 dollars. In 1987, deposits into the Fund were halted and then resumed in 2005 but the inflation-adjusted fair market value per capita value had fallen substantially. Since inflation-proofing resumed, combined with investment growth, the per capita value market value has stabilized and the market value per capita value on March 31, 2015 was \$4,624 per Albertan.

### Market Value Inflation Adjusted Per Capita

(2015 dollars)

