

Standing Committee on The Alberta Heritage Savings Trust Fund

Standing Committee on the Alberta Heritage Savings Trust Fund Annual Report January 2022 – March 2023

March 2023



**Standing Committee on the
Alberta Heritage Savings Trust Fund**
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**STANDING COMMITTEE ON THE
ALBERTA HERITAGE SAVINGS TRUST FUND**

March 2023

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 2022 to March 2023, pursuant to section 6(4)(c) of the *Alberta Heritage Savings Trust Fund Act*.

Sincerely,

[Original signed by]

Hon. Ron Orr, MLA
Chair, Standing Committee on the
Alberta Heritage Savings Trust Fund

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**Members of the Standing Committee on
the Alberta Heritage Savings Trust Fund**
30th Legislature

Hon. Ronald Orr, MLA*

Chair

Lacombe-Ponoka (UC)

Hon. Tracy L. Allard, MLA†

Deputy Chair

Grande Prairie (UC)

Garth Rowswell, MLA‡

Chair

Vermilion-Lloydminster-Wainwright (UC)

Hon. Matt Jones, MLA§

Deputy Chair

Calgary-South East (UC)

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

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

Richard Gotfried, MLA**
Calgary-Fish Creek (UC)

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

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

Peter Singh, MLA
Calgary-East (UC)

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

Hon. Josephine Pon, MLA‡‡
Calgary-Beddington (UC)

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

* Chair and Committee Member from November 30, 2022

† Deputy Chair from November 30, 2022

‡ Chair and Committee Member until November 30, 2022

§ Deputy Chair and Committee Member until November 30, 2022

** Committee Member from November 30, 2022

†† Committee Member until November 30, 2022

‡‡ Committee Member from November 30, 2022

§§ Committee Member from November 30, 2022

Substitutions Pursuant to Standing Order 56(2.1)-(2.4):

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

Mark Smith, MLA†††
Drayton Valley-Devon (UC)

Hon. Deron Bilous, MLA‡‡‡
Edmonton-Beverly-Clareview (NDP)

Dan Williams, MLA§§§
Peace River (UC)

Jasvir Deol, MLA****
Edmonton-Meadows (NDP)

Tany Yao, MLA††††
Fort McMurray-Wood Buffalo (UC)

Hon. Sarah Hoffman, MLA‡‡‡‡
Edmonton-Glenora (NDP)

*** Acting Deputy Chair on June 28, 2022, and September 26, 2022

††† Substitute for Hon. Whitney Issik on March 27, 2023

‡‡‡ Substitute for Hon. Christina Gray on January 25, 2022

§§§ Substitute for Hon. Matt Jones on June 28, 2022

**** Substitute for Hon. David Eggen on September 26, 2022

†††† Substitute for Hon. Matt Jones on September 26, 2022

‡‡‡‡ Substitute for Hon. Shannon Phillips on September 26, 2022

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 and teleconferencing for Members to participate in meetings remotely on the condition 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. The Act also outlines the powers of the President of Treasury Board and Minister of Finance to establish 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 described in the preamble to the *Alberta Heritage Savings Trust Fund Act*, as follows:

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 an annual 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 on 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.

In March 2023, the *Alberta Heritage Savings Trust Fund Act* was amended to allow a portion of the net income earned by the Heritage Fund, less the amount retained in the Fund for inflation-proofing, to be retained within the Heritage Fund in a manner and at the times determined by the Minister, rather than being transferred to the province's main operating fund, the General Revenue Fund.

III. Role of the Committee

Section 6(4) of the *Alberta Heritage Savings Trust Fund Act* sets out the mandate of the Committee, as follows:

(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. Meeting Dates and Motions Passed

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

January 25, 2022, Meeting

MOVED by Mr. Eggen that the Standing Committee on the Alberta Heritage Savings Trust Fund receive the 2021-2022 second-quarter report of the Alberta Heritage Savings Trust Fund.

May 30, 2022, Meeting

MOVED by Hon. Mr. Eggen that the Standing Committee on the Alberta Heritage Savings Trust Fund receive the 2021-2022 third-quarter report on the Alberta Heritage Savings Trust Fund.

MOVED by Hon. Mrs. Allard that the Standing Committee on the Alberta Heritage Savings Trust Fund approve the draft annual report of its activities during the 2021 calendar year.

June 28, 2022, Meeting

MOVED by Hon. Mrs. Allard that the Standing Committee on the Alberta Heritage Savings Trust Fund approve the 2021-2022 draft annual report.

MOVED by Mr. Singh that the Standing Committee on the Alberta Heritage Savings Trust Fund hold its annual public meeting on Thursday, October 27, 2022 from 7 p.m. to 9 p.m. at the Edmonton Federal Building.

MOVED by Hon. Mr. Hunter that the Standing Committee on the Alberta Heritage Savings Trust Fund direct Legislative Assembly Office Corporate Communications to prepare a draft communications plan in support of the 2022 public meeting and that the Chair be authorized to approve the communications plan after it has been made available for the Committee to review.

September 26, 2022, Meeting

MOVED by Mr. Yao that the Standing Committee on the Alberta Heritage Savings Trust Fund receive the 2022-2023 first-quarter report on the Alberta Heritage Savings Trust Fund.

February 1, 2023, Meeting

MOVED by Hon. Mrs. Allard that the Standing Committee on the Alberta Heritage Savings Trust Fund receive the 2022-2023 second-quarter report on the Alberta Heritage Savings Trust Fund.

March 27, 2023, Meeting

MOVED by Hon. Ms Gray that the Standing Committee on the Alberta Heritage Savings Trust Fund receive the 2022-2023 third-quarter report on the Alberta Heritage Savings Trust Fund.

MOVED by Hon. Ms Gray that the Standing Committee on the Alberta Heritage Savings Trust Fund authorize the Chair to approve the Standing Committee on the Alberta Heritage Savings Trust Fund Annual Report, 2022-2023, after it has been circulated to committee members for review.

MOVED by Hon. Mr. Hunter that the Standing Committee the Alberta Heritage Savings Trust Fund authorize the Chair to approve the minutes of the March 27, 2023, meeting of the Committee after they have been circulated to committee members for review.

V. 2022 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 2022 public meeting took place on October 27, 2022, at the Queen Elizabeth II Building, in Edmonton, Alberta.

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

Garth Rowswell, MLA, Chair

Hon. Tracy L. Allard, MLA, Acting Deputy Chair

Hon. David Eggen, MLA

Hon. Shannon Phillips, MLA

Hon. Christina Gray, MLA

Pat Rehn, MLA

Hon. Grant R. Hunter, MLA

Peter Singh, MLA

Jacqueline Lovely, 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

Alberta Investment Management Corporation (AIMCo) Participants

Sandra Lau, Co-chief Investment Officer

Amit Prakash, Chief Investment Strategy Officer

Public Participants

The 2022 Heritage Fund public meeting was the first public meeting since 2019 to be held with no public health measures due to the COVID-19 pandemic. The committee room galleries were again open to the public for in-person attendance. Public participation was also available through teleconference, e-mail, and social media.

Legislative Assembly Office Communications Services provided the Committee with a communications plan with options to promote the annual public meeting. The goal of the Committee was to reach out to Albertans to provide a status report on the Alberta Heritage Savings Trust Fund and to give them an opportunity to learn more about how the Fund's investments and proceeds are managed.

The Committee chose advertising options to reach as much of the general public as possible. Albertans were encouraged to attend the meeting in person or to watch the broadcast of the meeting on television or through the online stream and to phone in, e-mail, and tweet questions about the Fund. The meeting was promoted through traditional advertising such as print and radio media and supplemented with low- and no-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 2022 Annual Public Meeting

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

	2022	2021	2020	2019	2018
In person	1	N/A	3	17	21
Telephone	3	0	7	N/A	N/A
Online	120	62	127	68	49
Social media	573	488	1,024	979	25
	YouTube (--) [†]	YouTube (54) [‡]	YouTube (178)	YouTube (155)	
	Facebook (537)	Facebook (288)	Facebook (720)	Facebook (794)	
	Twitter (36)	Twitter (146)	Twitter (126)	Twitter (30)	

Questions Posed to the Committee and Panel in 2022

E-mail	6
Telephone	5
In person	8
Online	9
(Twitter/Facebook/YouTube)	

Post-meeting Survey Results

How did you hear about the meeting?

Social media	60%
Newspaper ad	10%
MLA	0
Assembly website	30%
Media Coverage	0

How engaging did you find the public meeting?

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

How did you watch the public meeting?

In person	0
Alberta Assembly TV	2
Assembly website	2
Facebook Live	3
Twitter Live	0
YouTube	1

To which age group do you belong?

18 to 25	1
26 to 35	0
36 to 45	2
46 to 55	3
56 to 65	3
66+	2

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

Yes	40%
No	60%

Where do you currently reside?

Edmonton	6
Calgary	2
Other	2

* Unable to track viewership statistics from Alberta Assembly TV

[†] Following the 2022 public meeting, the livestream video was unintentionally deleted on YouTube and the data associated with it cannot be recovered.

[‡] Corrected typographical error in 2021 YouTube views from 154 to 54.

VII. Schedule of Annual Public Meetings: 2000-2022

<u>Meeting Date</u>	<u>Location</u>
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
October 27, 2022	Edmonton

VIII. Financial Results For 2021-2022

During the 2021-2022 fiscal year the Alberta Heritage Savings Trust Fund “earned a market value return of 11.8 per cent, outperforming the passive benchmark return by 5.2 per cent. Over the past five years, the Fund has earned an annualized return of 7.6 per cent, and over the last ten years it has earned 9.3 per cent, surpassing the passive policy benchmark by 40 basis points and 60 basis points, respectively.”¹

The net income of the Heritage Fund during 2021-2022 was \$1.952 billion. As required by the *Alberta Heritage Savings Trust Fund Act*, the Fund retained \$705 million of its net income for inflation-proofing, with the remaining \$1.247 billion transferred to the General Revenue Fund.²

As of March 31, 2022, the Fund’s asset portfolio consisted of equity investments (50.4 per cent), inflation-sensitive and alternative investments (30.8 per cent), money market and fixed income investments (18.4 per cent), and other strategic opportunities (0.4 per cent).³

Highlights of the Fund’s financial results are contained in “The 2021-22 Fiscal Year in Review,” an excerpt from the Alberta Heritage Savings Trust Fund 2021-2022 annual report (see Appendix).

1 Alberta, Ministry of Treasury Board and Finance, *Alberta Heritage Savings Trust Fund 2021-22 Annual Report* [Edmonton: TBF, 2022], p. 11

2 Ibid., p. 35

3 Ibid., p. 31

Appendix: Excerpt from the Alberta Heritage Savings Trust Fund 2021-2022 Annual Report

The 2021-22 fiscal year in review

For most of this fiscal year, the effects of the pandemic continued to play out in the background. Many of the significant new market events occurred in the last fiscal quarter of this year. Russia's invasion of Ukraine, inflation concerns with accompanying central bank rate hikes and China's zero COVID policy all lowered market returns. Even with some market disruption in the last quarter, the Fund has performed well over the full fiscal year.

The largest and most significant impact in the fixed income market has been rising interest rates. Rising interest rates produce lower fixed income market values, which prevented positive performance in the Fund's fixed income holdings this year. Despite having negative returns, the fixed income segment of the Fund beat its policy benchmark by 1.1 per cent.

Investment income

The Fund generated gross earnings of \$2,128 million, translating to net income of \$1,952 million, after investment expenses of \$176 million. Gross investment earnings were \$948 million higher than estimated in Budget 2021. The difference between the budget estimate and actual income produced is due to stronger than anticipated markets in general, and an exceptional year of value added by the investment manager through active management.

Equity investments produced earnings of \$1,585 million during 2021-22, an increase of \$405 million, or 34.3% over the previous year. This was primarily driven by sales of holdings in private equity and income generated from global assets within the public equities portfolio.

Fixed income investments produced little income during the year as the low interest rate environment that has persisted since the start of the COVID-19 pandemic continued to result in lower yields. The low rate environment began to change in the second half of the fiscal year, as central banks began to raise rates in response to rising inflation. The increase in interest rates caused market values to fall which caused reduced income.

Inflation sensitive and alternative investments provided \$422 million in earnings, far surpassing the \$18 million earned the prior year. This asset class is an important part of the portfolio construction as it can produce consistent income over the long-term. Last fiscal year was an exception to this, in large part due to the lockdowns associated with the pandemic.

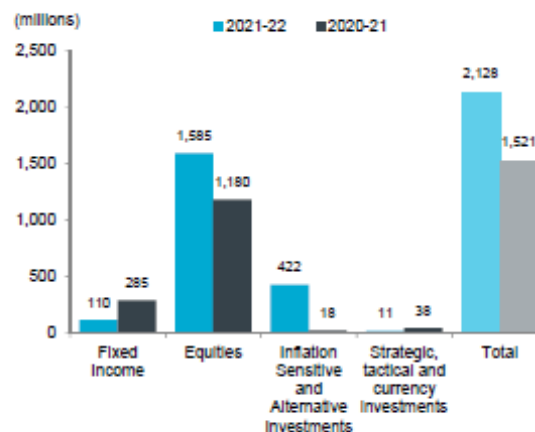
The Fund's equity asset class performed well in the 2021-22 fiscal year, earning an 18.4 per cent return despite the market disruptions that occurred in the final quarter of the year. Overall, there is still a welcome positive performance from the Fund's equity side. Private equity saw outsized returns this fiscal year and the entire Equities asset class managed to be the largest return contributor.

Inflation sensitive and alternative assets have characteristics that allow them to perform well in inflationary environments, and returned 15.0% over the fiscal year. These assets are typically held for the long-term, appreciate in value, and also produce cash flows that adapt to a changing economic environment. Real estate, infrastructure and renewable resources all produced double digit returns over the fiscal year.

Real assets such as movie theatres, airports, and shopping malls were forced to close and did not generate cash-flows that would be expected during the course of ordinary operations. As the world eases back into some form of normalcy, the income expectations for this asset class are expected to return to normal.

Strategic investments, which allow the asset manager to take advantage of difficult to classify opportunities to add value, contributed earnings of \$11 million during 2021-22.

INVESTMENT INCOME BY ASSET CLASS

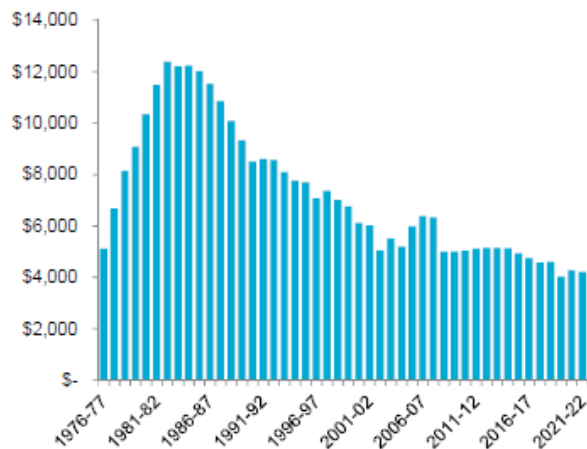


Transfers and inflation

Income transfers from the Fund to the General Revenue Fund began in 1982-83 and since then, \$43.3 billion of investment earnings have been transferred. Since 2005, earnings of \$5.1 billion have been retained in the Fund for inflation proofing.

The Fund's per capita market value has declined significantly since peaking in 1983 when the value of the Fund was about \$12,380 per Albertan. At the end of 2021, the market value is approximately \$4,200 per Albertan. This decline has been caused by three main factors. First, deposits into the Fund were decreased early in 1982 and eliminated in 1987. Second, most of the Fund's earnings have been transferred out of the Fund and into the General Revenue Fund. Third, Alberta's population has more than doubled since 1976, growing from approximately 1.9 million people to over 4.4 million people.

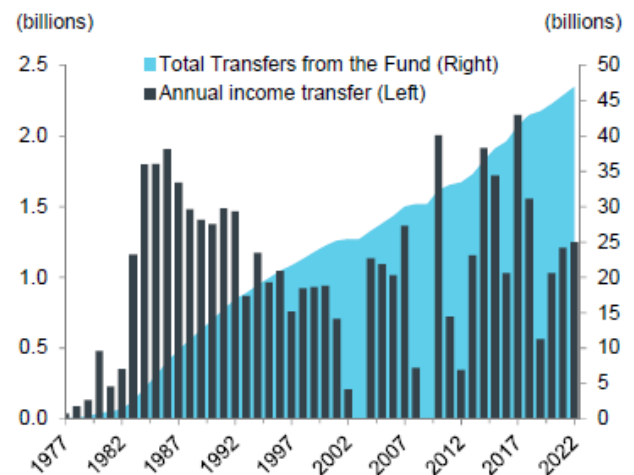
MARKET VALUE INFLATION ADJUSTED PER CAPITA
(2022 dollars)



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

The Fund has been used to pay for capital projects, to seed other endowments and for government priorities through transfers to the General Revenue Fund. Between 1976 and 1995, \$3.5 billion was used to pay for both capital projects and transfers of just over \$600 million to other Provincial endowment funds.

INCOME AND CUMULATIVE TRANSFER TO GRF



Investment expenses

The Fund's investment expenses were \$176 million during the 2021-22 fiscal year, \$9 million higher than the previous year. The increase in fees was due to performance fees that resulted from the strong, value added returns produced during the year.

INVESTMENT EXPENSES

(millions)	2022	2021
Total investment expenses	\$176	\$167
Increase/decrease in average investments	9.2%	1.0%
Investment expense per dollar invested	0.9%	0.9%

Asset mix

The Fund has a target asset mix of 20% fixed income, 32.5% inflation sensitive and alternative investments and 47.5% in equities. The Fund was slightly underweight fixed income and inflation sensitive assets, resulting in an overweight in equities at year end. The most significant change during the year were investments in private equity: investments in private equity increased from 8.7% last fiscal year to 9.4% this fiscal year. This increase resulted from increased values of existing assets and an increase in commitments from the Fund to private equity.

ASSET MIX (LONG-TERM TARGET ASSET MIX)

	Target	March 2022	March 2021	Policy Range
Money Market and Fixed Income	20.0%	18.4%	18.7%	15-45%
Deposits and short-term		0.4%	0.5%	0-25%
Bonds and mortgages		18.0%	18.2%	10-35%
Inflation Sensitive and Alternative Investments	32.5%	30.9%	30.5%	15-40%
Real estate		19.2%	19.1%	10-20%
Infrastructure		9.2%	9.0%	5-15%
Renewable resources		2.5%	2.4%	0-5%
Equities	47.5%	50.3%	50.3%	35-70%
Canadian		8.9%	8.4%	5-15%
Global developed		28.5%	28.7%	20-65%
Emerging markets		3.5%	4.5%	0-10%
Private		9.4%	8.7%	0-10%
Strategic opportunities	0.0%	0.4%	0.5%	0-5%