

ALBERTA HERITAGE SAVINGS TRUST FUND



Heritage Fund

Select Standing Committee on the Alberta Heritage Savings Trust Fund

Annual Report November 2007

Select Standing Committee
Alberta Heritage Savings Trust Fund



COMMITTEES
OF THE LEGISLATIVE ASSEMBLY

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Alberta Heritage Savings Trust Fund**
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**STANDING COMMITTEE ON THE
ALBERTA HERITAGE SAVINGS TRUST FUND**

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RON LIEPERT, MLA
Calgary-West

Deputy Chair:

GEORGE ROGERS, MLA
Leduc-Beaumont-Devon

Members:

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Red Deer-South

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HUGH MacDONALD, MLA
Edmonton-Gold Bar

RICHARD MAGNUS, MLA
Calgary North Hill

GARY MAR, MLA
Calgary Mackay

WESLYN MATHER, MLA.
Edmonton-Mill Woods

HUNG PHAM, MLA
Calgary-Montrose

October 2007

Honourable Ken Kowalski
Speaker of the Legislative Assembly
of the Province of Alberta

Dear Speaker Kowalski:

The Select Standing Committee on the Alberta Heritage Savings Trust Fund has the honour to submit its report for the 2006-2007 fiscal year.

Sincerely,

Art Johnston, MLA
Chair, Standing Committee on the
Alberta Heritage Savings Trust Fund

c. Dr. W.J. David McNeil
Clerk of the Legislative Assembly
of the Province of Alberta

MEMBERS 2006 - 2007 Fiscal Year

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MLA, Vermilion-Lloydminster (PC)

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MLA, Calgary-Hays (PC)

GEORGE ROGERS, Deputy Chair
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MLA, Edmonton-Gold Bar (Lib)

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MLA, Calgary North Hill (PC)

GARY MAR
MLA, Calgary Mackay (PC)

WESLYN MATHER
MLA, Edmonton-Mill Woods (Lib)

HUNG PHAM
MLA, Calgary-Montrose (PC)

TECHNICAL AND ADMINISTRATIVE SUPPORT:

2006

Alberta Finance

Hon. Shirley McClellan	Minister
Jai Parihar	Chief Investment Officer, Investment Manager
Eric Spink	Executive Director, Policy and Strategic Planning
Douglas Stratton	Director, Fund Management
Bob Howard	Senior Manager, Policy and Strategic Planning
Dave Pappas	Senior Manager, Financial Accounting and Standards
Sandie Hay	Manager, Financial Accounting and Standards
Mike Berezowsky	Public Affairs Officer, Communications

Office of the Auditor General

Fred Dunn	Auditor General
Graeme Arklie	Principal
Harmeet Kaur	Staff Auditor

Legislative Assembly Office

Karen Sawchuk	Committee Clerk
Robert Reynolds, Q.C.	Sr. Parliamentary Counsel
Rhonda Sorensen	Manager, Communications Services

2007

Alberta Finance

Hon. Lyle Oberg	Minister
Robert Bhatia	Deputy Minister
Rod Matheson	Assistant Deputy Minister, Treasury and Risk Management
Jai Parihar	Chief Investment Officer, Investment Manager
Douglas Stratton	Director, Fund Management
Lowell Epp	Director, Capital Markets
Dave Pappas	Senior Manager, Investment and Debt Accounting
F. Taylor	Senior Manager, Endowments
Sandie Hay	Manager, Financial Accounting and Standards
Dan Hanson	Executive Assistant to the Minister
Mike Berezowsky	Public Affairs Officer, Communications

Office of the Auditor General

Fred Dunn	Auditor General
Betty LaFave	Principal

Legislative Assembly Office

Corinne Dacyshyn	Committee Clerk
Karen Sawchuk	Committee Clerk
Robert Reynolds, Q.C.	Sr. Parliamentary Counsel
Rhonda Sorensen	Manager of Communications Services

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I. INTRODUCTION

All meetings of the Standing Committee on the Alberta Heritage Savings Trust Fund are open to the public. This report provides only the highlights from these meetings.

All committee meetings are recorded by *Alberta Hansard*, and transcripts and minutes are available in the Legislature Library. Transcripts of the public meetings are also available on the Legislative Assembly website.

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 may be invested. Five distinct investment divisions of the Heritage Fund were defined, each with different aims and investment criteria. The Act also outlines the powers of the Heritage Savings Trust Fund Investment Committee and the Minister of Finance (Provincial Treasurer) to make investments under each division.

It is the responsibility of the Minister of Finance, as soon as practicable after 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, copies are provided to all Members of the Legislative Assembly and to the Clerk of the Legislative Assembly. The report is then made public. The *Alberta Heritage Savings Trust Fund 2006-07 Annual Report* was made public on June 21, 2007.

A new *Alberta Heritage Savings Trust Fund Act* was passed by the Legislative Assembly during the 1996 Spring Session and was proclaimed on January 1, 1997. The mission statement is set out in the preamble to the *Alberta Heritage Savings Trust Fund Act*.

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.

The *Alberta Heritage Savings Trust Fund Act* includes an inflation proofing provision requiring a portion of the Heritage Fund income to be retained to protect its real value. Regular inflation proofing of the Heritage Fund started in 2005-06 once the Province's accumulated debt was eliminated and, to date, a total of \$664 million has been retained in the Fund.

III. ROLE OF THE COMMITTEE

An excerpt from the *Alberta Heritage Savings Trust Fund Act* describes the mandate of the Committee as follows:

(4) The functions of the Standing Committee are

- (a) to review and approve annually the business plan for the Heritage Fund;*
- (b) to receive and review quarterly reports on the operation and results of the operation of the Heritage Fund;*
- (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 Fund and conducts an annual public meeting in different locations in the province. The purpose of these meetings is to update Albertans on the management of the Fund and to solicit input from Albertans on the Fund's objectives.

The Minister of Finance has responsibility for the Fund's investments. The Minister is required to report on the performance of the Fund quarterly and to make public an annual report of the Fund, including a financial statement audited by the Auditor General of Alberta.

The Minister of Finance shall for each fiscal year prepare and provide to the Treasury Board a business plan for the Heritage Fund. Upon Treasury Board approval, the Minister shall provide a copy of the approved business plan to the Standing Committee for its approval. On the Standing Committee's approval of the business plan, the President of the Treasury Board shall incorporate the Heritage Fund's plan into the Government of Alberta's Business Plan.

Two committees, the Investment Operations Committee (IOC) and the Endowment Fund Policy Committee (EFPC) were established by Alberta Finance to add private sector financial and business oversight of the Fund's investment policies and operations. These Committees meet at least quarterly to review performance and fund management.

The Alberta Investment Management Corporation (AIM) acts as an investment manager for investment products assigned by statute to the Minister of Finance. AIM's objective is to create portfolios that match the financial goals, time frames and risk profiles of its clients' funds. AIM works to increase value added for clients, maintain high standards of governance and oversight, and be cost effective. In addition to the Alberta Heritage Savings Trust Fund, AIM also manages the assets of Alberta's Pension plans, Government Endowment funds and selected assets of other provincial public sector bodies.

The Standing Committee has made every attempt to fulfill its duties as required by the Standing Orders of the Legislative Assembly of Alberta.

IV. MEETINGS HELD AND MOTIONS PASSED DURING 2006 - 2007

Following is an excerpt of the motions passed at the 2006-2007 Committee meetings, indicating that the mandate of the Committee and the mission of the Alberta Heritage Savings Trust Fund had been fulfilled:

June 13, 2006 Meeting:

MOVED by Mr. Rogers that the Standing Committee on the Alberta Heritage Savings Trust Fund receive the 2006 Third Quarter Update as distributed.

MOVED by Mr. Cao that the Standing Committee on the Alberta Heritage Savings Trust Fund approve the 2006 Alberta Heritage Savings Trust Fund Annual Report as distributed.

MOVED by Mr. Snelgrove that the 2006 Annual Public Meeting of the Standing Committee on the Alberta Heritage Savings Trust Fund be held in Vermillion on November 7, 2006.

September 27, 2006 Meeting:

MOVED by Mr. Johnston that the Standing Committee on the Alberta Heritage Savings Trust Fund receive the First Quarter Update 2006-07 Quarterly Report as distributed.

MOVED by Mr. Snelgrove that the Standing Committee on the Alberta Heritage Savings Trust Fund change the date of its Annual Public Meeting to November 1, 2006.

MOVED by Mr. Goudreau that the Communications Action Plan for the 2006 Annual Public Meeting of the Standing Committee on the Alberta Heritage Savings Trust Fund be adopted as revised.

MOVED by Mr. Pham that the Standing Committee on the Alberta Heritage Savings Trust Fund approve the 2006 Report of the Standing Committee as distributed.

March 5, 2007 Meeting:

MOVED by Mr. Pham that the Standing Committee on the Alberta Heritage Savings Trust Fund receive the 2006-07 Second Quarter Update Report as distributed.

MOVED by Mr. Johnston that the Standing Committee on the Alberta Heritage Savings Trust Fund receive the 2006-07 Third Quarter Update Report as distributed.

MOVED by Mr. Pham that the Standing Committee on the Alberta Heritage Savings Trust Fund approve the draft 2007-10 Business Plan as circulated.

V. 2006 ANNUAL PUBLIC MEETING

The Standing Committee on the Alberta Heritage Savings Trust Fund held a public meeting on November 2, 2006, in the Town of Vermilion. The meeting was held to inform Albertans of the activities and results of the Heritage Savings Trust Fund, in accordance with the Committee's mandate.

The meeting was chaired by Mr. Ron Liepert, MLA for Calgary-West and Chair of the Committee, and was attended by Members of the Committee, and senior staff from the Department of Finance. Staff from *Alberta Hansard* were in attendance to record the proceedings, and Mrs. Karen Sawchuk, Committee Clerk, Ms Rhonda Sorensen, Communications Coordinator, and Ms Tracey Sales, Communications Coordinator, also accompanied the Committee.

The meeting opened with an official welcome and a brief statement by Mr. Lloyd Snelgrove, MLA for Vermilion-Lloydminster. The Chair, Mr. Ron Liepert followed and outlined the purpose of the public meeting. Additional comments were made by Committee Members Mr. Art Johnston, Mr. Wayne Cao, Mr. George Rogers, Mrs. Weslyn Mather, and Mr. Hugh MacDonald. Staff from the Ministry of Finance included Mr. Doug Stratton, Director of Fund Management with Alberta Investment Management, Mr. Eric Spink, Executive Director of Policy and Strategic Planning and Mr. Bob Howard, Senior Policy Adviser, Policy and Strategic Planning. The Chair and staff of the department explained the Fund's history and mandate, and its financial performance. The Chair and Members, as well as the department staff responded to questions.

VI. SCHEDULE OF ANNUAL PUBLIC MEETINGS 2000 - 2007

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 8, 2001	Whitecourt
November 7, 2002	Olds
November 5, 2003	Grande Prairie
October 5, 2004	Redwater
October 18, 2005	Calgary
November 2, 2006	Vermillion
October 10, 2007	<i>Scheduled for Red Deer</i>

VII. FINANCIAL RESULTS FOR 2006 - 2007

The results for 2006-2007 are based on the format outlined in the 2007-2010 business plan. The two main goals outlined in the business plan are:

GOAL 1: Maximize long-term returns at an acceptable level of risk while preserving the real value of Heritage Fund assets.

GOAL 2: Ensure the transparency of the Heritage Fund's objective and results for Albertans.

The highlights of the financial results for 2006-07 are contained in *The Year in Review*, an excerpt from the *Alberta Heritage Savings Trust Fund Annual Report 2006-2007* (Appendix I).

VIII. CLOSING REMARKS

The Committee appreciates the technical support provided by the Minister and staff of Alberta Finance, as well as the Auditor General and staff from his office. The Committee also acknowledges the administrative support provided by the Committee Clerks and the Communications Branch from the Legislative Assembly Office.

The Year in Review

(April 1, 2006 to March 31, 2007)

At March 31, 2007, the fair value of net assets held in the Fund totaled \$16.6 billion, an increase of \$1.76 billion from \$14.82 billion at the beginning of the year.

The Fund earned a market value rate of return of 12.4% in 2006-07, compared to 15.2% in the last fiscal year.

The table below summarizes the overall increase in the fair value of the Fund.

Changes in Fair Value of Net Assets

(in millions)

	2007	2006
Fair value, beginning of year	\$ 14,820	\$ 12,222
Investment income, cost basis	1,648	1,397
Transfers to the GRF	(1,365)	(1,015)
Retained for inflation proofing	283	382
Increase in unrealized gains	228	466
Transfers from the GRF:		
Deposits	1,000	1,000
Access to the Future - endowment	250	750
Total increase in net assets	1,761	2,598
Fair value, end of year	\$ 16,581	\$ 14,820
Cost, end of year	\$ 15,028	\$ 13,495
Accumulated unrealized gains	\$ 1,553	\$ 1,325

According to the Fund's legislation, all of its investment income is transferred to the GRF except for an amount retained in the Fund to protect its value from inflation. The Fund earned investment income of \$1.648 billion this year, of which \$1.365 billion was transferred to the GRF, leaving \$283 million retained in the Fund for inflation-proofing. This year, less was retained in the Fund for inflation-proofing than last year due to a reduction in this year's Canadian gross domestic product index (GDP Index) rate of 2.1%, down from 3.4% last year.

The Fund's actual income of \$1.648 billion exceeded budgeted income of \$914 million by \$734 million. A strong increase in world equity markets and real estate during the year also contributed to the overall increase in accumulated unrealized capital gains of \$228 million. As a result, at March 31, 2007, accumulated unrealized gains representing the difference between the fair value of investment securities and their cost totaled \$1.553 billion, up \$228 million from \$1.325 billion at the beginning of the year. Once securities are sold, unrealized gains become realized and are included in investment income for that year.

The 2006-07 Budget provided for a transfer of \$1 billion to the Fund from the GRF. In addition, \$250 million was transferred from the GRF under the *Access to the Future Act*, adding to the \$750 million received in 2005-06. The *Access to the Future Act* allows for a maximum of \$3 billion to be transferred into the Fund to support the advanced education endowment.

MARKET SUMMARY

The Canadian stock market posted good returns this year. Overall, the S&P/TSX Composite Index increased by 11.4% in 2006-07 compared to a strong return of 28.4% in 2005-06.

At March 31, 2007, one U.S. dollar purchased \$1.15 Canadian compared to \$1.17 Canadian at March 31, 2006. As a result, investment returns from U.S. dollar investments were lower when translated into Canadian dollars.

The S&P 1500 Index, which tracks the largest 1,500 American companies, increased by 11.3% in U.S. dollars compared to 13.0% last year. In Canadian dollars, the increase in the S&P 1500 Index was lower at 9.9% compared to 9.1% last fiscal year.

The bond market represented by the SC Bond Universe Index posted a return of 5.5%, compared to 4.9% last year.

Overall, the non-North American markets had strong returns for the year ended March 31, 2007. The MSCI EAFE Index measures the performance of approximately 1,200 companies on 21 country indices around the world. The Index increased by 18.7% in Canadian dollars compared to 20.0% last fiscal year.

The Fund's investment portfolio is well diversified and includes investments in real estate; U.S., non-North American and Canadian equities; bonds and money market securities; absolute return strategies; private equities; private income securities; and timberland investments. The following chart summarizes the market returns from various indices around the world and the overall return from the Fund for the year ended March 31, 2007. Indices for private equities, private income and timberland are not shown, as these investments are relatively illiquid with no readily available market.

Returns for Major Markets and the Heritage Fund (in Canadian dollars)

