

ALBERTA HERITAGE SAVINGS TRUST FUND



Heritage Fund

Standing Committee on the Alberta Heritage Savings Trust Fund

Annual Report October 2008

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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Calgary-Fish Creek

Deputy Chair:

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Edmonton-Calder

Members:

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Edmonton-Centre

ALANA DeLONG, MLA
Calgary-Bow

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ART JOHNSTON, MLA
Calgary-Hays

DARSHAN KANG, MLA
Calgary-McCall

RACHEL NOTLEY, MLA
Edmonton-Strathcona

VERLYN OLSON, MLA.
Wetaskiwin-Camrose

October 2008

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

Dear Speaker Kowalski:

The Standing Committee on the Alberta Heritage Savings Trust Fund has the honour to submit its report for the 2007-2008 fiscal year.

Sincerely,

Heather Forsyth, 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

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MLA, Calgary-Fish Creek (PC)

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MLA, Edmonton-Calder (PC)

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RACHEL NOTLEY

MLA, Edmonton-Strathcona (ND)

VERLYN OLSON

MLA, Wetaskiwin-Camrose (PC)

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Alberta Finance

Hon. Lyle Oberg	Minister
Robert Bhatia	Deputy Minister
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Lowell Epp	Director, Capital Markets
Sandie Hay	Manager, Financial Accounting and Standards
Rod Matheson	Assistant Deputy Minister-Treasury and Risk Management
Jai Parihar	Chief Investment Officer, Investment Management Division
Dave Pappas	Senior Manager, Investment and Debt Accounting
Douglas Stratton	Director, Fund Management

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Fred Dunn	Auditor General
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Legislative Assembly Office

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Micheline Gravel	Acting Committee Clerk
Jody Rempel	Committee Clerk
Robert Reynolds, Q.C.	Sr. Parliamentary Counsel
Tracey Sales	Communications Consultant
Karen Sawchuk	Committee Clerk
Rhonda Sorensen	Manager, 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 the highlights of the proceedings of these meetings.

All committee meetings are recorded in *Alberta Hansard*, and transcripts and minutes are available in the Legislature Library. Transcripts of the public meetings are also available on the Legislative Assembly of Alberta 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 and Enterprise (Provincial Treasurer) to make investments under each division.

It is the responsibility of the Minister of Finance and Enterprise, 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 Annual Report, 2007-2008* was made public on June 24, 2008.

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 Heritage Fund 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. Annual inflation-proofing of the Heritage Fund started in 2005-06, once the Province's accumulated debt was eliminated. In 2007-08, \$466 million was retained in the Heritage Fund for inflation-proofing. To date, a total of \$1,130 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 Heritage 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 Heritage Fund and to solicit input from Albertans on the Fund's objectives.

The Minister of Finance and Enterprise 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 of the Fund, including a financial statement audited by the Auditor General of Alberta.

The Minister of Finance and Enterprise 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. Upon 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 Heritage Fund's investment policies and operations. These Committees meet at least quarterly to review Fund performance and management.

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 Minister of Finance and Enterprise. AIMCo's objective is to create portfolios that match the financial goals, timeframes 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 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 2007-2008

The following contains an excerpt of the motions passed at the 2007 Standing Committee meetings, indicating that the mandate of the Committee and the mission of the Alberta Heritage Savings Trust Fund have been fulfilled:

June 12, 2007 Meeting:

MOVED by Mr. Doerksen that the Standing Committee on the Alberta Heritage Savings Trust Fund approve the Draft 2007 Alberta Heritage Savings Trust Fund Annual Report as distributed.

MOVED by Mr. Doerksen that the 2007 annual public meeting of the Standing Committee on the Alberta Heritage Savings Trust Fund be held in Red Deer and that the 2008 annual public meeting be held in Edmonton.

September 13, 2007 Meeting:

MOVED by Mr. Griffiths that the Standing Committee on the Alberta Heritage Savings Trust Fund receive the First Quarter Update 2007-08 as distributed.

MOVED by Ms Mather that the Standing Committee on the Alberta Heritage Savings Trust Fund hold its Annual Public meeting on Wednesday, October 10, 2007, at 7:00 p.m.

MOVED by Mr. Rogers that the Standing Committee on the Alberta Heritage Savings Trust Fund approve the draft 2007 Alberta Heritage Savings Trust Fund Annual Report as revised with current Committee members' names.

V. 2007 ANNUAL PUBLIC MEETING

The Standing Committee on the Alberta Heritage Savings Trust Fund held a public meeting on October 10, 2007, in the City of Red Deer. The meeting was held, in accordance with the Committee's mandate, to inform Albertans of the activities and financial results of the Heritage Savings Trust Fund.

Mr. Art Johnston, Member of the Legislative Assembly for Calgary-West and Chair of the Committee, chaired the meeting, which was also attended by the other Members of the Committee and senior staff from the Department of Finance. Staff from *Alberta Hansard* were in attendance to record the proceedings, and Ms. Jody Rempel, Committee Clerk and Ms Tracey Sales, Communications Consultant also accompanied the Committee to Red Deer.

Mr. Victor Doerksen, MLA for Red Deer-South, opened the meeting with an official welcome and a brief statement. Mr. Johnston, the Chair, followed, outlining the agenda of the meeting, which included a presentation by Committee Members on the history, mission and future of the Heritage Fund, and a discussion by Department of Finance officials on the management and performance of the Fund. Mr. Doerksen, Deputy Chair Mr. George Rogers, MLA for Leduc-Beaumont-Devon, Mrs. Weslyn Mather, MLA for Edmonton-Mill Woods, and Mr. Hugh MacDonald, MLA for Edmonton-Gold Bar, were the Committee Members who participated in the presentation of the history and mission of the Heritage Fund. Mr. Lowell Epp and Mr. Douglas Stratton, both from the Ministry of Finance, provided an overview of the management and performance of the Fund. After the presentations concluded, the floor was opened for questions, which were answered by the Chair, Committee Members and Ministry officials.

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	Red Deer
October 2, 2008	<i>Scheduled for Edmonton</i>

VII. FINANCIAL RESULTS FOR 2007-2008

Financial results for 2007-2008 are measured against the two key goals outlined in the 2008-2011 Heritage Fund Business Plan:

GOAL 1: Maximize long-term returns at a prudent level of risk.

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

The highlights of the financial results for 2007-08 are contained in *The Year in Review*, an excerpt from the *Alberta Heritage Savings Trust Fund Annual Report 2007-2008* (see Appendix I).

VIII. CLOSING REMARKS

The Standing Committee appreciates the technical and other support provided by the Minister and staff of Alberta Finance and by the Auditor General and staff from his office. The Committee also acknowledges the administrative support provided by the Legislative Assembly Office.

Appendix I

The Year in Review

Excerpt from the Alberta Heritage Savings Trust Fund 2008 Annual Report

The Year in Review

(April 1, 2007 to March 31, 2008)

At March 31, 2008, the net assets held in the Fund totaled \$16.412 billion at cost and \$17.044 billion at fair value.

This year, the Fund earned investment income of \$824 million and transferred \$358 million to the GRF, leaving \$466 million retained in the Fund for inflation-proofing. The amount retained in the Fund for inflation-proofing was \$182 million more than last year due to an estimated increase in the Canadian gross domestic product price index (GDP deflator) rate to 3.1% from 2.1% last year and a larger asset balance at the beginning of the year.

In 2007-08, the Fund's net assets, at cost, increased by \$1,384 million, including \$918 million received from the GRF and \$466 million retained in the Fund for inflation proofing.

In 2007-08, the Fund's realized net income of \$824 million was half of the previous year's realized net income of \$1,648 million. Most of the decline in income came from U.S. and non-North American public equities which were negatively impacted by the stronger Canadian dollar and negative returns in foreign equity markets.

The difference between the Fund's cost and fair value of net assets represents unrealized capital gains. At March 31, 2008, unrealized capital gains declined by \$921 million, to \$632 million from \$1,553 million at the beginning of the year.

The decline in unrealized capital gains of \$921 million was greater than the Fund's realized net income of \$824 million resulting in a market value loss of \$97 million or negative 0.7% in 2007-08. Last year, the Fund had a positive market value return of \$1.876 billion or positive 12.4%.

The table below summarizes the overall increase in the net assets of the Fund.

Changes in Net Assets

For the Year Ended March 31, 2008

(in millions)

	Fiscal 2007-08		Fiscal 2006-07
	Budget	Actual	Actual
Investment income	\$ 1,283	\$ 888	\$ 1,703
Investment expenses	(68)	(64)	(55)
Net income (1)	1,215	824	1,648
Transfers to the GRF	(931)	(358)	(1,365)
Income retained in Fund for inflation proofing	284	466	283
Transfers from the GRF (2)	-	918	1,250
Change in cost of net assets	284	1,384	1,533
Cost of net asset, beginning of year	14,947	15,028	13,495
Cost of net assets, end of year	\$ 15,231	\$ 16,412	\$ 15,028
Accumulated unrealized gains		632	1,553
Fair value of net assets, end of year		\$ 17,044	\$ 16,581

(1) Budget 2007 includes investment income of \$1,219 million less administrative expenses of \$4 million

(2) Transfers are recorded when received.

MARKET SUMMARY

The Canadian real estate market represented by the IPD Large Institutional All Property Index posted the strongest returns in 2007-08. The Index increased by an estimated 14.5% in 2007-08 compared to 18.3% last year.

In Canada, the stock market was down compared to last year. Standard & Poor's Toronto Stock Exchange (S&P/TSX) Composite Index increased by 4.0% in 2007-08 compared to 11.4% last year.

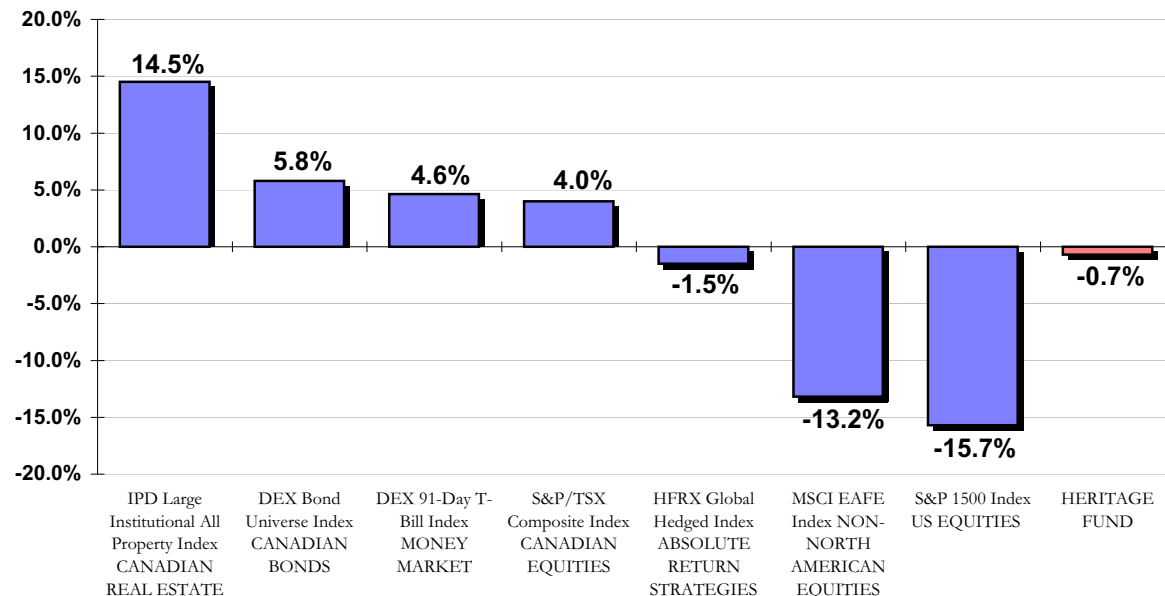
In the U.S., there were negative returns from equities this year. A significant decline in the U.S. housing market and credit concerns with sub-prime mortgages and asset backed commercial paper (ABCP) led to a liquidity and credit crisis which affected the value of financial institutions holding these types of securities. The S&P 1500 Index, which tracks the largest 1,500 American companies, recorded a market value return of negative 5.4% in U.S. dollars in fiscal year 2007-08 compared to an increase of 11.3% last year. When translated into appreciating Canadian dollars, the S&P 1500 Index returned a negative 15.7% this year compared to positive 9.9% last year. At March 31, 2008, one U.S. dollar was worth \$1.03 Canadian compared to \$1.15 Canadian at the beginning of the year. As a result of the appreciating Canadian dollar, investment returns from U.S. investments were lower when translated into Canadian dollars.

Outside of North America, the MSCI EAFE Index measures the performance of approximately 1,200 companies on 21 country indices around the world. In Canadian dollars, the Index declined by 13.2% in 2007-08 compared to an increase of 18.7% last year.

The Canadian bond market represented by the DEX Bond Universe Index posted a return of 5.8% this year compared to 5.5% last year.

The following chart summarizes the market returns from various indices around the world and the overall return from the Fund in 2007-08. Indices for private equities, private income and timberland are not provided, as these investments are relatively illiquid with no readily available market index.

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



Standing Committee on the Alberta Heritage Savings Trust Fund
Final Report
October 2008