

Twenty-Seventh Legislature Second Session

Standing Committee on the
**Alberta Heritage Savings
Trust Fund**

ANNUAL REPORT

2008-2009



COMMITTEES
OF THE LEGISLATIVE ASSEMBLY

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

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Calgary-Fish Creek

Deputy Chair:

DOUG ELNISKI, MLA
Edmonton-Calder

Members:

LAURIE BLAKEMAN, MLA
Edmonton-Centre

ROBIN CAMPBELL, MLA
West Yellowhead

ALANA DeLONG, MLA
Calgary-Bow

JONATHAN DENIS, MLA
Calgary-Egmont

ART JOHNSTON, MLA
Calgary-Hays

DARSHAN KANG, MLA
Calgary-McCall

HUGH MacDONALD, MLA
Edmonton-Goldbar

September 2009

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 2008-2009 fiscal year.

Sincerely,

[Original signed by the chair]

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 Alberta

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JONATHAN DENIS
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ART JOHNSTON
MLA, Calgary-Hays (PC)

DARSHAN KANG
MLA, Calgary-McCall (Lib)

HUGH MacDONALD
MLA, Edmonton-Goldbar (Lib)

TECHNICAL AND ADMINISTRATIVE SUPPORT:

Alberta Finance

Hon. Iris Evans	Minister
Tim Wiles	Deputy Minister
Aaron Brown	Director, Portfolio Management
Sandie Hay	Manager, Endowments and Pooled Investments
Kari-ann Kuperis	Public Affairs Officer
Rod Matheson	Assistant Deputy Minister-Treasury and Risk Management
Dave Pappas	Senior Manager, Investment and Debt Accounting

Office of the Auditor General

Fred Dunn	Auditor General
Merwin Saher	Assistant Auditor General
Betty LaFave	Principal

Legislative Assembly Office

Corinne Dacyshyn	Committee Clerk
Shannon Dean	Sr. Parliamentary Counsel
Melanie Friesacher	Communications Consultant
Philip Massolin	Committee Research Coordinator
Robert Reynolds, Q.C.	Sr. Parliamentary Counsel
Tracey Sales	Communications Consultant
Rhonda Sorensen	Manager, Communications Services

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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. Transcripts of the 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 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.

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.

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 2008-2009

The following contains an excerpt of the motions passed at the 2008-2009 Standing Committee meetings, indicating that the mandate of the Committee and the mission of the Alberta Heritage Savings Trust Fund have been fulfilled:

June 9, 2008 Meeting:

MOVED by Ms DeLong that the Standing Committee on the Alberta Heritage Savings Trust Fund receive the 2007-08 Second Quarter Report on the Alberta Heritage Savings Trust Fund, as presented.

MOVED by Mr. Johnston that the Standing Committee on the Alberta Heritage Savings Trust Fund receive the 2007-08 Third Quarter Report on the Alberta Heritage Savings Trust Fund, as presented.

MOVED by Ms DeLong that the Standing Committee on the Alberta Heritage Savings Trust Fund approve the 2008 Alberta Heritage Savings Trust Fund Annual Report as revised to include the amendments contained in the June 9, 2008 memo by the Minister of Finance and Enterprise.

MOVED by Mr. Elniski that the Standing Committee on the Alberta Heritage Savings Trust Fund approve the 2008-11 Business Plan as revised to include the amendments indicated in the June 9, 2008 memo by the Minister of Finance and Enterprise.

MOVED by Mr. Denis that the 2008 annual public meeting of the Standing Committee on the Alberta Heritage Savings Trust Fund be held in the constituency of Edmonton-Calder, on a date to be determined.

September 9, 2008 Meeting:

MOVED by Mr. Olson that the Standing Committee on the Alberta Heritage Savings Trust Fund receive the 2008-09 First Quarter Report on the Alberta Heritage Savings Trust Fund, as presented.

MOVED by Ms DeLong that the Standing Committee on the Alberta Heritage Savings Trust Fund approve the draft Annual Report of the Standing Committee on the Alberta Heritage Savings Trust Fund, October 2008, as distributed.

December 1, 2008

MOVED by Ms DeLong that the Standing Committee on the Alberta Heritage Savings Trust Fund receive the 2008-09 Second Quarter Report on the Alberta Heritage Savings Trust Fund as presented.

V. 2008 ANNUAL PUBLIC MEETING

The Standing Committee on the Alberta Heritage Savings Trust Fund held a public meeting on October 16, 2008, in the City of Edmonton. 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.

Mrs. Heather Forsyth, Member of the Legislative Assembly for Calgary-Fish Creek and Chair of the Committee, chaired the meeting, which was also attended by the Hon. Iris Evans, Minister of Finance and Enterprise, other Members of the Committee and senior staff from the Department of Finance and Enterprise. Staff from *Alberta Hansard* were in attendance to record the proceedings, and Ms Jody Rempel, Committee Clerk; Mrs. Corinne Dacyshyn, Committee Clerk, and Ms Tracey Sales, Communications Consultant also accompanied the Committee to Edmonton-Calder.

Mr. Doug Elniski, MLA for Edmonton-Calder, opened the meeting with an official welcome and a brief statement. Mrs. Forsyth, 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 and Enterprise officials on the management and performance of the Fund. Mr. Elniski, Deputy Chair, Mr. Jonathan Denis, MLA for Calgary-Egmont, Ms Alana DeLong, MLA for Calgary-Bow, Mr. Art Johnston, MLA for Calgary-Hays and Mr. Verlyn Olson, MLA for Wetaskiwin-Camrose, were the Committee Members who participated in the presentation of the history and mission of the Heritage Fund. Dr. Gary Smith, Chief Economist from the Alberta Investment Management Corporation, 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 - 2009

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	Edmonton
<i>September 24, 2009</i>	<i>Scheduled in Calgary</i>

VII. FINANCIAL RESULTS FOR 2008-2009

Financial results for 2008-2009 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 *Alberta Heritage Savings Trust Fund* was impacted by the sub-prime mortgage crisis, credit collapse and ensuing worldwide recession, including the 30% to 40% plunge in global equity markets during 2008 – 2009. The Fund is invested in a diversified portfolio including asset classes such as real estate, which mitigated the losses during this period. The value of the Fund declined by 18.1%, or \$3 billion, to \$14.0 billion at March 31, 2009.

The highlights of the financial results for 2008-09 are contained in *The Year in Review*, an excerpt from the *Alberta Heritage Savings Trust Fund Annual Report 2008-2009* (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 Enterprise, and by the Auditor General and staff from his office. The Committee also acknowledges the administrative and technical support provided by the Legislative Assembly Office.

The 2008-09 Year in Review

(April 1, 2008 to March 31, 2009)

At March 31, 2009, the net assets held in the Fund totaled \$13.838 billion, at cost, and \$13.980 billion, at fair value. The Fund's cost primarily includes the purchase price of the various assets adjusted for writedowns. The Fund's fair value represents what those assets would be worth if sold.

At the start of the fiscal year, the net income of the Fund was originally forecast to earn \$769 million. However, the global financial crisis, recession and declining commodity prices resulted in an actual net loss of \$2.574 billion. This is recognized in the Fund's audited financial statements, on a cost basis. Under legislation a portion of the Fund's net income is retained in the Fund for inflation proofing. However, since the Fund recorded a loss, no amount was retained in the Fund.

The difference between the Fund's cost and fair value of net assets represents unrealized gains. At March 31, 2009, net unrealized gains declined by \$490 million to \$142 million from \$632 million at the beginning of the year. Including the decline in unrealized gains, the net loss, on a fair value basis, was \$3.064 billion.

The Fund's return this year was negative 18.1% compared to negative 0.7% last year. Approximately 90% of the Fund's net loss came from investments in publicly traded equities which were severely impacted by the global financial crisis.

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

Changes in Net Assets

For the Year Ended March 31, 2009
(in millions)

	Fiscal 2008-09		Fiscal 2007-08
	Budget	Actual	Actual
Investment income (loss)	\$ 835	\$ (2,501)	\$ 888
Investment expenses	(66)	(73)	(64)
Net income (loss)	769	(2,574)	824
Transfers to the General Revenue Fund (GRF)	(490)	-	(358)
Income (loss) retained in Fund	279	(2,574)	466
Transfers from the GRF	-	-	918
Change in cost of net assets	279	(2,574)	1,384
Cost of net assets, beginning of year	16,412	16,412	15,028
Cost of net assets, end of year	\$ 16,691	\$ 13,838	\$ 16,412
Accumulated unrealized gains		142	632
Fair value of net assets, end of year		\$ 13,980	\$ 17,044