

Twenty-Seventh Legislature Third Session

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

ANNUAL REPORT

2009-2010



COMMITTEES
OF THE LEGISLATIVE ASSEMBLY



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

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JANIS TARCHUK, MLA
Banff-Cochrane

Deputy Chair:

DOUG ELNISKI, MLA
Edmonton-Calder

Members:

LAURIE BLAKEMAN, MLA
Edmonton-Centre

ALANA DeLONG, MLA
Calgary-Bow

HEATHER FORSYTH, MLA
Calgary-Fish Creek

GEORGE GROENEVELD, MLA
Highwood

ART JOHNSTON, MLA
Calgary-Hays

HUGH MacDONALD, MLA
Edmonton-Goldbar

DAVE QUEST, MLA
Strathcona

September 2010

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 on activities for the 2009-2010 fiscal year.

Sincerely,

(original signed by)

Janis Tarchuk, 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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MLA, Strathcona (PC)

TECHNICAL AND ADMINISTRATIVE SUPPORT:

Alberta Finance and Enterprise

Hon. Ted Morton	Minister
Tim Wiles	Deputy Minister
Rod Babineau	Manager, Portfolio Analysis, Treasury Management
Aaron Brown	Director, Portfolio Management
Sandie Hay	Manager, Investment Accounting
Nick Kaczmarek	Communications
Rod Matheson	Assistant Deputy Minister, Treasury and Risk Management
Dave Pappas	Senior Manager, Investment and Debt Accounting

Alberta Investment Management Corporation (AIMCo)

Dr. Leo de Bever	Chief Operating Officer
Jagdeep Bachher	Chief Investment Officer
Douglas Stratton	Senior Vice-President, Fund Management Group

Office of the Auditor General

Merwan 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, 2009-2010*, was made public on June 24, 2010.

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 a different location in the province each year. 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 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 IN 2009-2010

The following contains an excerpt of the motions passed at Standing Committee meetings held from April 1, 2009 to March 31, 2010, indicating that the mandate of the Committee and the mission of the Alberta Heritage Savings Trust Fund have been fulfilled:

June 15, 2009 Meeting:

MOVED by Mr. Johnston that the Standing Committee on the Alberta Heritage Savings Trust Fund approve the 2008-2009 Alberta Heritage Savings Trust Fund Annual Report as circulated.

MOVED by Mr. Denis that the 2009 Annual Public Meeting of the Standing Committee on the Alberta Heritage Savings Trust fund be held in the constituency of Calgary-Hays.

September 15, 2009 Meeting:

MOVED by Mr. Campbell that the Standing Committee on the Alberta Heritage Savings Trust Fund receive the 2009-2010 Alberta Heritage Savings Trust Fund First Quarter Report as presented.

MOVED by Ms DeLong that the Standing Committee on the Alberta Heritage Savings Trust Fund approve the draft 2009 Report of the Standing Committee on the Alberta Heritage Savings Trust Fund as distributed.

December 2, 2009 Meeting:

MOVED by Mr. Johnston that the Standing Committee on the Alberta Heritage Savings Trust Fund receive the 2009-2010 Alberta Heritage Savings Trust Fund Second Quarter Report as presented.

January 27, 2010 Meeting:

MOVED by Mr. Johnston that the Standing Committee on the Alberta Heritage Savings Trust Fund approve the 2010-2013 Alberta Heritage Savings Trust Fund Business Plan as circulated.

March 16, 2010 Meeting:

MOVED by Mr. Groeneveld that the Standing Committee on the Alberta Heritage Savings Trust Fund receive the 2009-2010 Third Quarter Report on the Alberta Heritage Savings Trust Fund as presented.

OTHER MOTIONS PASSED IN SUPPORT OF THE 2009-2010 REPORTING PERIOD

June 17, 2010 Meeting:

MOVED by Ms DeLong that the Standing Committee on the Alberta Heritage Savings Trust Fund approve the 2009-2010 Annual Report on the Alberta Heritage Savings Trust Fund as presented.

V. 2009 ANNUAL PUBLIC MEETING

The Standing Committee on the Alberta Heritage Savings Trust Fund held a public meeting on Thursday, September 24, 2009, in the constituency of Calgary-Egmont. The meeting was held to inform Albertans of the activities and financial results of the Alberta Heritage Savings Trust Fund, in accordance with the Committee's mandate.

The meeting attracted approximately 46 members of the public and received coverage by Global, CBC, City TV, and the Calgary Herald.

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

Mr. Doug Elniski, MLA, Edmonton-Calder (PC), Deputy Chair
Mr. Robin Campbell, MLA, West Yellowhead (PC)
Mr. Wayne Cao, MLA, Calgary-Fort (PC)
(substitution for Mr. Jonathan Denis, MLA, Calgary-Egmont)
Ms Alana DeLong, MLA, Calgary-Bow (PC)
Mr. Art Johnston, MLA, Calgary-Hays (PC)
Mr. Darshan Kang, MLA, Calgary-McCall (AL)
Mr. Hugh MacDonald, MLA, Edmonton-Gold Bar (AL)

Mr. Doug Elniski, MLA for Edmonton-Calder, opened the meeting with an official welcome and a brief statement. Mr. Wayne Cao, MLA, Calgary-Fort, brought greetings to the constituency on behalf of Committee member Mr. Jonathan Denis, MLA, Calgary-Egmont. Following opening comments, there was a comprehensive presentation. The audience was very engaged, and the Committee received a number of comments and questions.

Department of Finance and Enterprise Participants:

Hon. Iris Evans, Minister
Mr. Lowell Epp, Executive Director, Capital Markets, Treasury Management

Alberta Investment Management Corporation (AIMCo) Participants:

Mr. Gary Smith, Chief Economist and Strategist
Mr. Douglas Stratton, Senior Vice-President, Fund Management Group

Public Participants:

Mr. Lloyd Crosby
Mr. Dean Giesbrecht
Mr. Chris Hooymans
Mr. Allan Kettles
Mr. Rennie Van Dalen

For verbatim *Hansard* transcripts of the public meeting's proceedings, please refer to:
www.assembly.ab.ca/committees/ABHeritageTrustFund.

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
September 24, 2009	Calgary

VII. FINANCIAL RESULTS FOR 2009-2010

Financial results for 2008-2009 are measured against the three key goals outlined in the 2010-2013 Heritage Fund Business Plan:

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

GOAL 2: Ensure the Heritage Fund aligns with the fiscal goals of the province.

GOAL 3: Ensure the transparency of the Heritage Fund's objectives and results for Albertans

The Alberta Heritage Savings Trust Fund had a strong year, posting a return of 17.8%, and ending with a value of \$14.4 billion as of March 31, 2010. The positive results were due to a recovery in global equity markets that saw a 31.5% return for the fiscal year. Fixed income also contributed a 10.8% return after credit spreads narrowed from record levels during the global financial market crisis. As a result, the Fund had a record year for net income, transferring just over \$2.0 billion to the General Revenue Fund to support Albertan's spending priorities, such as healthcare, infrastructure, and education. Inflation was negative for the fiscal year, so no income was retained in the Fund for inflation proofing.

The highlights of financial results for 2009-2010 are contained in *The Year in Review*, an excerpt from the *Alberta Heritage Savings Trust Fund Annual Report, 2009-2010* (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, the Auditor General and staff from his Office, and Legislative Assembly Office staff.

The 2009-10 Year in Review

(April 1, 2009 to March 31, 2010)

A strong recovery in world equity markets in 2009-10 led to the highest recorded investment income in the Fund's 34 year history. Overall, the Fund earned slightly over \$2 billion this year, nearly triple the Fund's original budget estimate of \$711 million. This was a significant turnaround from last year's investment loss of \$2.6 billion caused by the global credit crisis, recession and declining commodity prices.

The Fund has a legislated provision for retaining a portion of its income for inflation-proofing. However, since inflation in Canada is negative for fiscal 2009-10, no amount has been retained in the Fund and all of the net income is transferred to the General Revenue Fund.

At March 31, 2010, the net assets held in the Fund totaled \$13.838 billion, at cost, and \$14.400 billion, at fair value. At March 31, 2010, 53% of the Fund's investments were invested in equities followed by 26% in fixed income and money market securities and 21% in inflation sensitive and alternative investments.

The cost of the Fund's investments primarily includes the purchase price of the various assets, adjusted for writedowns. The fair value of the Fund's investments represents what those assets would be worth if sold. The difference between the Fund's cost and fair value of net assets represents unrealized gains. Unrealized gains represent the profit that would be made if the assets were sold. At March 31, 2010, net unrealized gains increased by \$420 million to \$562 million from \$142 million at the beginning of the year.

On a fair value basis, the Fund's investments returned 17.8% this year, representing a significant turnaround from last year's loss of 18.1%.

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

Changes in Net Assets (in millions)

	Years ended March 31		
	Budget	Actual	
	2010	2010	2009
Investment income (loss)	\$ 778	\$ 2,077	\$ (2,501)
Investment expenses	(67)	(71)	(73)
Net income (loss)	711	2,006	(2,574)
Transfers to the General Revenue Fund	(711)	(2,006)	-
Net income (loss) retained in the Fund	-	-	(2,574)
Cost of net assets, beginning of year	13,928	13,838	16,412
Cost of net assets, end of year	\$ 13,928	\$ 13,838	\$ 13,838
Accumulated unrealized gain (loss)		562	142
Fair value of net assets, end of year		\$ 14,400	\$ 13,980