Legislative Assembly of Alberta

The 28th Legislature
First Session

Standing Committee
on the
Alberta Heritage Savings Trust Fund

Thursday, June 20, 2013
3:30 p.m.

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Standing Committee on the
Alberta Heritage Savings Trust Fund

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Jablonski, Mary Anne, Red Deer-North (PC), Deputy Chair

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Casey, Ron, Banff-Cochrane (PC)
Dorward, David C., Edmonton-Gold Bar (PC)
Eggen, David, Edmonton-Calder (ND)
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Standing Committee on the
Alberta Heritage Savings Trust Fund

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Rod Babineau, Manager, Portfolio Analysis
Lowell Epp, Executive Director, Capital Markets
Darcy Scott, Public Affairs Officer

Alberta Investment Management Corporation
Darren Baccus, Associate General Legal Counsel
Leo de Bever, Chief Executive Officer

3:30 p.m. Thursday, June 20, 2013

[Mr. Khan in the chair]

The Chair: We shall start the meeting. I'd like to call the meeting to order. My name is Stephen Khan. I'm the MLA for St. Albert and chair of the Standing Committee on the Alberta Heritage Savings Trust Fund. I'd like to welcome you all here today.

We'll start with introductions, and we'll go around the table. We have representatives from the Department of Treasury Board and Finance. We also have the pleasure of having the Associate Minister of Finance with us today. I should acknowledge Hector Goudreau, who is a substitute today for Mr. Ron Casey.

Mr. Goudreau: That's right. Thank you. Hector Goudreau, MLA, Dunvegan-Central Peace-Notley.

Mr. Dorward: David Dorward, MLA for Edmonton-Gold Bar.

Mr. Scott: Darcy Scott, communications branch, Treasury Board and Finance.

Mr. Baccus: Darren Baccus, associate general counsel, AIMCo.

Dr. de Bever: Leo de Bever, CEO, AIMCo.

Mr. Fawcett: Kyle Fawcett, Associate Minister of Finance.

Mr. Epp: Lowell Epp, Treasury Board and Finance.

Mr. Babineau: Rod Babineau, Treasury Board and Finance.

Mr. Driesen: Rob Driesen, Assistant Auditor General.

Mr. Ireland: Brad Ireland, Assistant Auditor General.

Mr. Saher: Merwan Saher, Auditor General.

Mr. Eggen: David Eggen, MLA for Edmonton-Calder.

Ms Kubinec: Maureen Kubinec, Barrhead-Morinville-Westlock, MLA.

Ms Rempel: Jody Rempel, committee clerk, Legislative Assembly Office.

The Chair: Thank you. I believe we also have some members joining via teleconference, so we can go to them at this moment for introductions.

Mrs. Jablonski: Yes. Mary Anne Jablonski, Red Deer-North.

Mr. Anderson: Rob Anderson, Airdrie.

The Chair: Thank you very much for joining us. Folks, we understand there's some extreme weather in your neighbourhoods. Speaking on behalf of the committee, we wish you all well and thank you for joining us.

Just a reminder of some housekeeping items as we move forward. The microphone consoles are operated by the *Hansard* staff, so there's no need for members to manhandle them.

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If we refer to the agenda, we'll move to agenda item 2, approval of agenda. I'm seeking a motion to approve the draft agenda. That motion would be that the agenda for the Thursday, June 20, 2013, meeting of the Standing Committee on the Alberta Heritage Savings Trust Fund be adopted as circulated.

Mr. Goudreau: I'll move that.

The Chair: All in favour? Any objections? That motion is carried.

Again, I'd like to thank members for accommodating today's meeting, recognizing that certain issues require immediate review by the committee in order to meet the requirements of the Alberta Heritage Savings Trust Fund Act.

Carrying right along, we'll move to agenda item 3, and I'll seek approval of the May 27, 2013, minutes. The minutes have all been distributed. If I could get a motion that the minutes of the May 27, 2013, meeting of the Standing Committee on the Alberta Heritage Savings Trust Fund be adopted as circulated.

Ms Kubinec: So moved.

The Chair: All in favour? Any opposed? That motion, too, is carried.

That will bring us to agenda item 4, which is the draft of the 2012-2013 Alberta heritage savings trust fund annual report. A draft of the 2012-2013 annual report was distributed to all committee members last week, and an updated version similar to the original draft but with improved formatting was made available yesterday. Members are reminded that this draft report is confidential, and that once approved by the committee, final copies will be printed by Alberta Treasury Board and Finance and copies will be distributed to all MLAs by the chair, thereby making the report public.

At this moment I would like to ask the hon. associate minister to give us a review of the annual report.

Mr. Fawcett: Thank you, Mr. Chairman, and congratulations on your appointment as chair of this committee. It's a pleasure to be able to present the annual report to you. I am here on behalf of Minister Horner, who does send his regrets.

The purpose of my remarks is obviously to provide a brief overview of the heritage fund's performance for the year 2012-13. Before we get started, I would like to comment briefly on the format of this report. Over the last several years we've made revisions to the report, with the goal of telling more of the story of the heritage fund. We've added some historical information, a governance section, and a Q and A. We've received very positive feedback on these changes and have elected to keep all of this stuff in the report. The structure, the organization, the overall design of the report is slightly different; however, the content is the exact same as it was last year, with all of those additions that we've made over the last several years. Readers still have access to highlights on page 1, and information is organized in a way that the reader can drill down for more detail by reading deeper into the report.

To talk about the fund's results, I think that many of you that have read the report would agree that this has been a very good year, and we've seen a double-digit return on investment of assets in the Alberta heritage trust fund. This builds on the fund's success for the previous three fiscal years following the '08-09 year. The fund's net income was higher than expected, and the fund is recording its third-highest income in the last decade. The upturn was primarily due to stronger than expected equity markets during the final part of the fiscal year. The fund outperformed its benchmark with equities and fixed-income assets classes beating their benchmarks and the alternative class coming up a bit shy but still recording double-digit returns.

Looking at the top chart on page 13 of the report, you can quickly get a sense of how the fund performed relative to its targets. The amount in excess of the overall benchmark reflects the value that is added by the fund's investment manager, AIMCo.

Still on page 13 the lower chart tells you how each asset class performed. Mr. Chairman, investment expense is up this year, and that is due to a couple of factors. One is a continuing shift in the asset mix toward alternative investments like real estate and infrastructure, which are more expensive to manage, and improved investment performance leading to higher performance fees being paid to AIMCo employees and external managers.

As you know, the fund is managed with a long-term view, Mr. Chairman. In looking at the fund's performance through that lens, it confirms that we are on track. The fund's 10-year rate of return is 8.1 per cent. This includes the bad year we had in 2008-09 as a result of the global recession credit crisis and market downturn.

I'm excited about the fund's long-term performance, especially as the government embarks on a new savings strategy that will see the government save regularly, both in good times and in bad times. Regularly depositing some of our nonrenewable resource revenue into savings combined with the government's decision to phase out the practice of withdrawing net income from the fund will help the fund grow faster than ever. Our government tabled and passed in the spring legislative session legislation that calls for 100 per cent of the fund's income to be retained in the fund starting in 2017-18, but the government is committed to starting those changes a year earlier.

I know some of you would like to have seen this happen years ago, but the focus on these so-called lost savings obscures the fact that this money was put to good use on behalf of Albertans. Since the fund's inception the heritage fund has supported Albertans' priorities to the tune of $34.6 billion, priorities such as health care, education, and important infrastructure like hospitals, schools, and roads.

Mr. Chairman, in closing, I think you'd agree that these are exciting times for the heritage fund. The new savings strategy will help secure a brighter future for Alberta, and as the province's long-term savings fund the Alberta heritage fund will obviously be a big part of that.

This concludes my remarks for today. I'd like to turn it over to Dr. de Bever to give you a few general comments about his view on the past year and what he sees going forward.

Thank you, Mr. Chairman.

3:40

The Chair: Thank you, hon. minister.

Just at this moment, before we get to Dr. de Bever, we should revert to introductions.

Dr. Sherman: Raj Sherman, Edmonton-Meadowlark.

The Chair: Thank you, Dr. Sherman.

Dr. de Bever, the floor is yours.

Dr. de Bever: Okay. Good afternoon. As I've said before to this committee, sometimes returns are high for reasons that we don't directly control, and that's nice. Last year market returns were very high, so that helped. But what was unusual about last year was that pretty much everything we tried to do to make the returns higher than market worked. That's very unusual. Usually I have, say, 10 strategies, and six or seven of them will work, and three of them won't, so you'll have a result overall that is pretty nice. But last year everything pretty much worked. That has resulted in an excess return that is unusual, 1 and a half to 2 per cent. Of course, given that you do book value accounting, it's probably understating what really went on because the market value has increased more than what this would suggest.

The reference to expenses: let me confront that head-on. There was an accounting change that accounts for most of the difference. Over the last four years the Auditor General has asked us to move in a certain direction; for instance, to be as explicit about costs when they are incurred. The change made last year was that external management fees, that used to be taken out of returns, are now explicitly stated as costs. If you look at the $99 million for 2011 and if you did that on a 2012 basis, it would be 140. So the increase is only 10, and the bulk of that is something else. The fact that we are now recording when we're buying alternative assets, so private assets: all the acquisition costs are reported up front rather than amortized over the life of the asset.

Then there are some management performance fees for internal staff, and that's about $3 million. That's a good-news story, too. As you know, AIMCo was established to manage more of the assets ourselves than we used to. To just put that in perspective, the costs would have been higher by probably $30 million or $40 million if we were still managing some of the assets externally like we did in 2008 because performance fees for external managers are about four- or fivefold what they are for a dollar of extra return internally. So those are the main items.

I was also asked to quickly reference what might be ahead. If this is the time to do that, I can do that now.

The Chair: By all means. Carry on.

Dr. de Bever: We have discussed before this committee that we're nearing the end of a bond cycle that has lasted about 30 years. Remember when you could still renew your mortgage at 20 per cent in 1981? Well, that's long gone. We're now down to interest rates that are clearly too low, and that's because central banks have been trying to create liquidity in the aftermath of 2008 to keep the economy going. That is coming to an end. As you saw today in both stock and bond markets, there's been a sell-off because it's now clear that particularly the U.S. Federal Reserve is no longer going to inject extra liquidity. That's a good-news story behind it, too, in the sense that there's a feeling that the economy is starting to recover, so that extra liquidity is not needed. Although it's going to give us a rocky period – in other words, stock and bond markets are going to adjust to higher interest rates – what it also says is that the economy is coming back.

Our annual report is going to be published next week, and one of the strong messages in the report is that we feel that in that longer term trend economic growth is going to be a lot stronger than most people expect. I mean, that's probably true for Alberta, but it's also true for Canada and the United States. Having said that, I think that the reason we've had some optimal growth is that we've tried to make everything happen with one policy, and that is interest rates being low. That's just not enough. One of the things that I'm particularly exercised about is that there has been not enough infrastructure investment and investment in general going on. As Governor Carney used to say: profits are basically dead money because they're sitting on corporate balance sheets without being used. You would expect more investment to be happening at this stage, but of course, corporations are saying: well, until we see the growth, why should we invest more?

I think the challenge that governments in Canada and the United States and Europe face is: how do we keep that trend growth sufficiently close to optimal to reduce unemployment and at the same time not cause debt to GDP, which is an issue of concern for a lot of governments, to increase? The lesson there is that if debt to GDP is your target and you have GDP that is very, very low, you're not making any improvement either. So it's not just a matter of debt; it's the debt relative to the level of activity.

Mr. Chairman, I'd like to keep it to that. If there are any questions, I'd be glad to answer them.

The Chair: Thank you very much, sir.

At this point in time we can move to questions or comments about what was just tabled. Mr. Goudreau.

Mr. Goudreau: Thank you, Mr. Chair. The Associate Minister of Finance started by talking about investment costs and fees, and Dr. de Bever did talk about that, so that partly answered my question.

I first want to start by congratulating AIMCo and your team for doing a good job. It's always encouraging to see things move upwards rather than downwards. I sat on this committee when things went the other way, and it's not a very, very pleasant situation.

Dr. de Bever: It's not pleasant for us. It's not pleasant for you either, I guess.

Mr. Goudreau: That's right. But my question is, then, going back – and I'm referring to page 25 – to trying to understand the noncash items included in net income. It went from $219 million to $265 million. Is that part of the investment expenses that we saw? Do they relate?

Dr. de Bever: Sorry. I'm trying to find it.

Mr. Goudreau: Page 25 in the statement of cash flows for the year ended March 31. The numbers went from $219 million in '12 to $265 million in 2013 and the same for the decrease in accounts payable. If I could have a comment on that particular one, going from $32 million to minus $27 million.

Dr. de Bever: I'm pretty sure it's not related to expenses. I think it's an accounting issue that Finance probably is better to explain.

Mr. Epp: Those are realized gains on sales of units in pools.

Mr. Goudreau: So on the negative side, then?

Mr. Epp: On the decrease or increase in accounts payable?

Mr. Goudreau: That's right.

Mr. Epp: That has to do with timing differences between when the sales were made and when the cash was actually exchanged on some transactions.

Mr. Goudreau: Okay. Thank you.

The Chair: Thank you, Mr. Goudreau.

Mr. Eggen.

Mr. Eggen: Thank you, Mr. Chair. Thanks so much for your report and for the strong performance results. They're quite encouraging. Absolutely.

I have a couple of questions. First off, you had mentioned that AIMCo was endeavouring to do more of your work internally, which is a reduced expense for commissions and so forth. But just going back to page 11 of the report, then, we do see that in absolute terms the price of investment expenses has gone up $49 million more than last year and $63 million more than what you budgeted for. Also, the percentage of the total, I presume, portfolio has gone up as well. I know that you explained those in two different pieces, but I'm just wondering how that kind of goes together, right? You ultimately do have quite a bit more expense in regard to the investment, and then also the percentage of the total value of the fund has gone up from last year.

Dr. de Bever: The bulk of that is a good-news story. In other words, if you don't make excellent returns over what the market gives you, there are no performance fees to be had, okay?

Mr. Eggen: Yes. I understand that.

3:50

Dr. de Bever: I don't know whether the magnitude of the difference between external and internal fees is clear. Let me give you a simple example. If an external manager makes a 20 per cent return, just to keep the numbers nice and round, he will probably keep 4 per cent of that as a performance fee. When we do this internally, our internal people will get less than 1 per cent. It's a 4 to 1 or 5 to 1 ratio, so it's very attractive.

I guess the reason that the numbers are high is twofold. One is that performance has been good, but you shouldn't underestimate the impact of the shift in asset mix to private assets and the set-up costs of doing that. The portfolio of alternative assets, or private assets, has been growing. As we acquire them, there are set-up costs to achieve that, and last year they were in the order of $10 million or $15 million. That should be a transitory cost.

Mr. Eggen: Okay.

Dr. de Bever: The base cost – and this is something else I should tell you. We compare ourselves on cost in a survey by a company called CEM, and we continue to be low-cost providers for each individual activity that we do for the heritage fund, but it's the shift in what the heritage fund is asking us to do that has driven the cost up. In other words, we've gone from simple stocks and bonds to real estate. You know, for instance, bonds may cost us .15 per cent a year to manage; real estate will be half a per cent or .6.

In some cases we've done something where in order to get higher net returns, we had to have higher expenses. Let me give you an example of that, and I think we've talked about this before here. We've gone into the U.S. market in mortgages, and we are making an extra 2 to 2 and a half per cent gross on those mortgages, but we have to give up an extra 50 basis points, or half a per cent, to get that return. So it shows up in cost, but the net impact is positive, right?

Mr. Eggen: It's larger. Yeah. Okay. Good.

Mr. Fawcett: Just to add, Mr. Chairman, that it's one of those things like no one likes paying their taxes. But you do know when you're paying your taxes that if you're paying more taxes, it means you're making more money. This is a bit of a function of that as well.

Mr. Eggen: Oh, sure. Absolutely. As Dr. de Bever mentioned, it is a transitory cost as well due to the nature of the assets that we are purchasing. You know, certainly, I don't mind paying my taxes.

Mr. Anderson: Mr. Chair, I have a question when we have a moment.

The Chair: Thank you, Mr. Eggen.

Mr. Anderson, we've heard your request. We're going to move to Mr. Dorward first.

Mr. Dorward: Thank you, everybody, for attending today and certainly for the results that you're showing to us now. Dr. de Bever, could you go through just briefly what a benchmark means?

Dr. de Bever: Okay. We try to keep this very simple. When I got here, we had 95 benchmarks, and it's hard for even me to figure out what that means. What we've gone to is something very simple. We said: "Okay. If we weren't working for you, what would be your options?" You could go into the market and buy a bunch of ETFs or index swaps, which are basically ETFs except on an institutional level, and that would give you market return minus the cost of implementation, .15, .2 per cent.

For us to do better for you, we can do two main things. The first thing is that we can invest in, say, stocks and bonds – it's not through an index fund, but we can actively manage it – and try and earn an extra 2 per cent, which is what happened last year. That's one way to do it.

The other way is to move from listed to private assets, and the concept there is that if you can be very good at picking private assets, you should earn an incremental return that's somewhere between 2 and 5 per cent over long periods of time. The benchmark is the market return by which we judge whether we're making progress relative to what you could do without us being there. Does that answer your question?

Mr. Dorward: Yeah. So now I take it there are not 92 anymore. There are how many? A reasonable number?

Dr. de Bever: About half a dozen. Yeah. They tend to be the universe bond index for Canada, the long bond index for some of the government accounts, and then various stock market indices, mostly the global MSCI stock market index. That keeps it simple, and it makes it easier to explain it. We are particularly clientcentric in picking those benchmarks. There's another way to pick benchmarks, and that is that you pick your benchmarks as a manager so you can beat them. Of course, that's not the object of this exercise. We're very client focused. We want to make sure we're delivering incremental value for our clients, and we pick benchmarks that fit that objective.

Mr. Dorward: All right. You spoke briefly about, in effect, what is note 7 on page 36, so I'd refer you to that. This is an accounting question. I apologize, but that's what I do. That change of policy that you mention is reflected in note 7, the expenses charged by AIMCo, $99 million to $148 million. This is, as I say, more of an accounting policy. Was there a policy note change? That change wasn't done retroactively, then, just going forward? So was there a change? I thought you mentioned that the $99 million would have been something else had we applied the same criteria.

Dr. de Bever: It would have been $140 million.

Mr. Dorward: So we didn't restate the financial statements, then, going back?

Dr. de Bever: That's basically what happened.

Mr. Dorward: I don't know who wants to tackle that one or if anybody wants to even discuss that.

Mr. Epp: Can the department get back to you on that?

Mr. Dorward: Sure. Yeah. That's fine.

I did have a question for the associate minister if it's okay, Chair. Or do you want me to go to the bottom of the list?

The Chair: We'll let Mr. Anderson ask his question and come back to you, Mr. Dorward.

Mr. Dorward: Sure. Yeah. Just put me back in the cycle.

The Chair: Mr. Anderson, do you have a question?

Mr. Anderson: Yes. Thanks, Mr. Chair. I'd like to also congratulate AIMCo for their good work. I was looking through my RRSP and noticed that I also had a massive increase in my assets, around 8 to 10 per cent per year for the last couple of years. I think it's certainly worth mentioning that you've done a good job with the money, but to keep it in perspective, the markets have done very well, and I think that that's important. We can't blame you when markets don't do well and the value of the fund goes down as it did in 2008. Then, of course, the markets are mostly responsible for the good years, too. But that doesn't take away from the good job that you have done.

What I would like, though, is to ask exactly how much has been paid to AIMCo directors, employees, et cetera in salaries and bonuses in this reporting period.

Dr. de Bever: I don't know exactly what the proportion is for the heritage fund, but the total cost of running AIMCo from a staffing point of view is around the order of $75 million. It's about 10 basis points, a little over that. It is fair to say that this is the first year that our long-term incentive payments have paid out. The incremental cost of that for the heritage fund in short- and long-term bonuses is in the order of $3 million or $4 million. If you compare last year with this year, it's higher by $3 million or $4 million because of the incentive payments for internal staff.

Mr. Anderson: So it's $75 million. That's how many employees, managers, executives?

Dr. de Bever: It's 330, 335.

Mr. Anderson: Thank you.

The Chair: Next up for his second question would be Mr. Goudreau.

Mr. Goudreau: Well, thank you, Mr. Chair. Just a couple of quick questions. Certainly, on page 25 you've made only, I believe – I'm just thinking about interest rates and your discussion on interest rates, yet the cash markets have returned only 1.1 per cent. Given your comments would you expect to make more in the future if interest rates were to rise? I guess I'm trying to understand the full impact of changing interest rates on the investment of the Alberta heritage savings trust fund.

Dr. de Bever: Okay. Cash rates change rapidly, and they change daily – right? – in principle. So that's not where the big difference is going to be. The difference is going to be in the long bond portfolios. When interest rates go up – and this is what most people don't understand – the value of those bonds goes down because future cash flows are discounted at the new, higher interest rates. We have had a policy over the last few years of being very, very defensive in our bond portfolios, meaning that the term of the bonds that we hold is less than average.

4:00

In other words, if you look at the universe bond index, it has an average maturity of bonds in that index, right? We've been shorter than that, and the reason is exactly what you're referring to. When interest rates go up, you're going to have a capital loss on those bonds. We want to minimize that capital loss, and we try to make up for it by having more high-quality credits in the portfolio, which pay us an increment over government bond rates, but because the duration is short, when interest rates go up, it doesn't hurt as much when they do. Does that answer your question?

Mr. Goudreau: Sure. It does.
A couple of other quick ones.

The Chair: Proceed, Mr. Goudreau.

Mr. Goudreau: Okay. In the Canadian equity fund you've got $1.4 billion invested towards Canadian equity types of activities. Would you have an idea of how much is actually invested in Alberta?

Dr. de Bever: I've done that calculation a while back. I haven't done it recently. Roughly across all portfolios something like 8 per cent is invested in Alberta. You should understand that part of my role is to diversify the assets of not just the heritage fund but the pension funds from the risks that exist in the province. What I mean by that is that, you know, through various taxes and so on and even in the economy as a whole we have a big exposure to the energy sector. We tend to have the bulk of our equities, for instance, not in Alberta or not in Canada but somewhere else so that if something happens to the energy sector, it will not hurt us as badly as it would if we had a disproportionate amount within the province.

Mr. Goudreau: Thank you.
My last question. A few years ago there were a lot of concerns about ethical investments such as investments in tobacco companies or other questionable types of organizations. Have we moved away from that, or can we say that all of our investments are, between quotation marks, ethical?

Dr. de Bever: Well, as we've discussed before in this committee, you have to be very careful how you handle that. I'll give you an example. I was on a conference call with a Dutch pension plan that wanted to put some of the companies in Fort McMurray on the blacklist for being environmentally unfriendly. What's unfriendly is in the eye of the beholder. We've taken a look at sort of the most egregious unethical – well, tobacco is an example. Is it unethical? Well, people smoke. But is it undesirable? Probably, right? So what we've done there is that we will not have any active investments in those kinds of questionable categories. It's too expensive to get rid of all the stocks. In other words, if you look at the Toronto Stock Exchange or the U.S. stock exchange, there are obviously some tobacco companies in there, but we've committed to this committee that we will not have any active positions in those kinds of questionable investments.

Mr. Goudreau: Thank you.

The Chair: Thank you, Mr. Goudreau.
We'll move to Mr. Dorward, followed by Dr. Sherman.

Mr. Dorward: Actually, I would rather go after individuals that haven't had a chance to speak if that's okay, Chair. It's probably fairer that way.

The Chair: You can go if you can be brief, Mr. Dorward.

Mr. Dorward: Okay. Associate Minister, thank you for your presentation. Could you refer to page 20, please. I assume that when you made your comments about the $34.6 billion, I think you stated – is that the transfers from the fund, in what I'm seeing as a pink column there? Could you just reiterate what you said so that we can get our heads wrapped around what happened to that $34 billion? I assume that's those first two columns.
Here's where I'm going with that. In my area I have a seniors' . . .

Mr. Fawcett: Yeah. What we have is transfers from the fund. The first column is a total over the years of $31 billion that has been transferred into general revenue and has gone into things like education, health care, policing, municipalities. The right-hand column is capital project expenditures. That totals about $3.5 billion, and those are actual capital projects. What you are aware of is that in the early years of the fund a lot of the revenue generated from the fund was used for strategic capital purposes. If you go around to many facilities, whether they be small airports in municipalities – you know, you can see grain cars and that sort of thing that actually will have the Alberta heritage fund logo on them. Those were specific capital projects. The intention of the first few years of the fund was that part of the revenue was to be put into those types of strategic capital projects that would grow and build the province.

Mr. Dorward: So I can draw a circle around the year that, for example, a seniors' facility was built in my area, and I'm looking at the dollars that built that, then.

Mr. Fawcett: That's right.

Mr. Dorward: Good.
Thank you, Mr. Chair. Put me back on the list.

The Chair: Thank you, Mr. Dorward.
We'll move to Dr. Sherman, followed by Mr. Anderson.

Dr. Sherman: Thank you, Mr. Chair. I'd like to thank everyone for the presentation. The markets have been good, and the performance of the funds has been equally as good if not better, and I appreciate that.
Looking at the report, the value of the fund in absolute dollars, adjusted for inflation, has essentially dropped by one-third since 1986. Looking at page 11 of the report, in terms of inflation adjusted per capita we essentially have lost 60 per cent of the value. Really, the output when your family does a lot of back-breaking work for a lifetime: you see how much money you've put away. Essentially, we are 60 per cent less per capita when adjusted for inflation. It's been a progressive decline over the last quarter century.
My question and my proposal is that, really, we need to compare ourselves to other well-performing funds. Can the committee get a comparison with the other top five funds in the world of not only how the annual returns have been or what the absolute dollars and absolute growth and inflation-adjusted per capita growth have been, a regular comparison to the other funds? I wonder if we can get that from you. The whole point is that with the government's current policy – and I don't want to discuss policy here, but this is policy that's been passed – we'll only put away 25 per cent above $10 billion of nonrenewable resource revenue.

The Chair: Dr. Sherman, we're here to make questions and comments on the report. With the understanding of the information we're gathering, we will either move the report or not. If you could stick to the report, please.

Dr. Sherman: Yeah. That's what I'm getting back to. I appreciate the report. I wonder if the next time you give a report, you could give us those comparisons to other jurisdictions.

Mr. Fawcett: Certainly, we could take that under advisement. However, I would caution the hon. member that comparing the per capita value of the fund to other types of funds is not for sure a project that would provide a lot of value. With a lot of other funds how they determine the capital that goes into them is done a significantly different way. You know, in a lot of the funds they're putting a hundred per cent of their nonrenewable resource revenue or royalties into them and charging huge sales taxes and income taxes to fund their social programs. We as a government have found a balance to try to provide value to current Albertans through investment in health care and education of our nonrenewable resource revenues as well as some of the investment income off the fund currently and have tried to put some away.

The fact is that if you look at the period over 2002-03 to 2012-13, let's remember that a million people moved to this province during that time. The province grew by 25 per cent, and those people when they move to the province don't bring assets to the Alberta heritage trust fund, okay? So I'm not sure where you're going with this, hon. member, but I think we need to be very careful as to what you're asking us to compare ourselves to and whether it would actually provide value in the context of this report.

4:10

Dr. Sherman: Thank you, hon. Associate Minister.

The mission statement of the fund is to save nonrenewable resource revenues, one, and, two, to grow the fund. Currently the fund, even if you take out the per capita, stands at one-third, inflation adjusted, of what it was more than a quarter of a century ago. The question is: I'd like to know where we stand compared to other performing funds. How do they perform, one, on the returns and, two, getting back to the mission statement of the Alberta heritage savings trust fund, which is to save nonrenewable resource revenue. That is the beginning of the mission statement, the whole meaning of the heritage savings trust fund.

The Chair: Dr. Sherman, the purpose of this exercise is to approve the report or not. If you could frame your line of questions within that context, please.

Dr. Sherman: I was just responding to comments from the associate minister. Thank you.

The Chair: Thank you very much, Dr. Sherman.

I have Mr. Anderson on the list. We have 20 minutes, Mr. Anderson, to conclude this meeting. We still have some very important information items to get through, so if I could request you to be brief in your questions, please.

Mr. Anderson: Sure. I'll be as brief as my friend Mr. Dorward. I promise.

Anyway, with regard to the associate minister talking about new Albertans not bringing assets to the fund, that's a huge misrepresentation. These folks actually do bring assets. They pay taxes. They bring economic growth, which translates into royalties. We would not have the amount of money to invest in the fund in royalties, taxes, et cetera if it wasn't for these new Albertans. So that's just not true. I don't like paying taxes either, which is why I'm a little worried about the size of the remuneration that we're handing out in this report.

The Chair: Mr. Anderson, for the sake of time, is there a question?

Mr. Anderson: Yeah, there sure is. Thank you, Mr. Chair, for being so thorough.

There are 335 people that you just said are making $75 million in bonuses and salaries. That's an average of $223,880 per person. Dr. de Bever, do you think that's a reasonable amount of money for a 335-person staff, to average $223,000 in salaries and bonuses? That seems to me extraordinarily high.

Dr. de Bever: Okay. The alternative would be to have external managers do the jobs of the 335 people, and your costs would be 3 or 4 times as high.

Mr. Anderson: Okay. That's not all that believable. Could you please explain why 335 people need to make $223,000 on average?

The Chair: Mr. Anderson, for the sake of time, we're going to carry on. Dr. de Bever has answered your question.

We will proceed with the agenda items now. We'll move on to a motion. I'll put the motion to my colleagues that

> the Standing Committee on the Alberta Heritage Savings Trust Fund approve the 2012-2013 Alberta heritage savings trust fund annual report as circulated.

We're looking for somebody to move that motion.

Mr. Dorward: I will move that motion that you presented, Mr. Chair.

The Chair: Mr. Dorward, thank you. All those in favour? Opposed? That motion is carried.

Mr. Eggen: Could we get that vote reflected in the *Hansard*? Is that possible?

The Chair: Yes. Okay. We can take a recorded vote. We'll start immediately to my right.

Mr. Goudreau: Agreed.

Mr. Dorward: Agreed.

Ms Kubinec: Agreed.

The Chair: On the phone line?

Mrs. Jablonski: Agreed.

The Chair: Those opposed?

Dr. Sherman: Opposed.

Mr. Eggen: Opposed.

Mr. Anderson: Opposed.

The Chair: Thank you.

We'll move forward with the agenda. Item 5 is an information item which speaks to the repeal of section 6(4)(a) of the Alberta Heritage Savings Trust Fund Act. With the passage of the Fiscal Management Act during the 2013 spring sitting there have been amendments to the Alberta Heritage Savings Trust Fund Act which affect the mandate of this committee. I've asked the associate minister to provide a quick overview of what has changed and how it affects the work of this committee. With the amount of time we have left, I'll emphasize "quick."

Associate Minister Fawcett.

Mr. Fawcett: Yes. Thank you very much, Mr. Chair. I appreciate the opportunity to bring forward some clarification as to your question on the repeal of section 6(4)(a) of the Alberta Heritage Savings Trust Fund Act. The Fiscal Management Act came into force on April 29. Among other things, in that act it repealed the requirement to produce a business plan for the heritage fund. Therefore, the committee's responsibility for reviewing and approving the business plan is no longer required. As for the broader question of repealing the requirement to produce the business plan, there were several compelling reasons. The heritage fund is an investment account with financial investments. The Alberta heritage fund itself does not have any employees; hence, no actionable plan can be followed.

As per section 2(2) of the Alberta Heritage Savings Trust Fund Act the minister has sole responsibility to invest the fund. The business plan for the heritage fund was subordinate to and less meaningful than other existing documents; in particular, the statement of investment policy and guidelines. It is this investment policy that directs how the fund is to be invested, not the business plan. The policy is approved by the minister but was reviewed in detail by the standing committee and published on the heritage fund website. The policy is delivered to AIMCo and outlines the objectives the fund is to meet as well as outlining the manner in which the fund is to be invested.

The ministry also has its own detailed business plan, which references the heritage fund. Goal 1.3 states:

> Within a broad framework of principles and policies established by the minister, including risk tolerance, Alberta Investment Management Corporation (AIMCo) will implement investment strategies to achieve optimal investment performance.

In light of all of these factors, Mr. Chair, the government concluded that there was no real value in continuing to produce a business a plan for the fund. The repeal of this requirement was proposed, and the Assembly concurred with the passage of the Fiscal Management Act.

Thank you, Mr. Chair.

The Chair: Thank you, Mr. Fawcett.

Quickly, any comments or questions? We have Mr. Eggen.

Mr. Eggen: Well, thanks, Mr. Chair. You know, it brings into question the value of us being able to have this committee if we're not able to debate this in any meaningful way. I mean, I think we have to look past when we just have the same majority government all the time. Certainly, when we change the makeup of this committee, it's important, in my view, to have the full value of every member being able to vote on the business plan. I find this is another sort of watering down of the function of the committee, so I oppose it.

The Chair: Just a reminder to my colleagues here that this is an information item only. There's no action taken here.

I've got Mr. Dorward, followed by Dr. Sherman and Mr. Anderson.

Mr. Dorward: Yeah, just quickly. I'm in favour of this. When I was appointed to this committee, I wondered why we were reviewing a business plan. There's a fundamental principle in any organization, and it deals with control and responsibility. Clearly, the control and most of the responsibility indeed is with the minister to do this. You know, I wondered why we would interject a conversation into something that we have no real responsibility for and no control over. It seemed to be kind of cursory for us to have anything to do with it. I'm in favour of us not having the semiresponsibility to have to go through the business plan.

Thank you.

4:20

The Chair: Thank you, Mr. Dorward.

Dr. Sherman: The ultimate responsibility lies with the Legislative Assembly. In removing this, I guess it begs the question: other than to just rubber-stamp a report and just chit-chat over nothing that is going to be changed, what really is the point of the committee if it's just for information? That's a very important change. You know, it brings into question the whole reason to have this committee.

The Chair: Thank you, Dr. Sherman.

Mr. Anderson: Well, I guess I would reflect what two of my colleagues have just said, that, you know, I guess the government's model has been a failed model from 1976 until now. [Inaudible] if what Mr. Dorward was saying was accurate.

I think that it's absolutely fundamental that this standing committee continue to have a role in reviewing the business plan to make sure that the fund is being managed in accordance with the business plan and that things are consistent. If there are any inconsistencies and so forth, we can point those out, and it's very public. Then the media and the public can debate in their own minds who they think is right and who they think is wrong. But this is a huge watering down.

I would ask the committee chair as well as the associate minister: instead of meeting two or three times or four times a year, are we going to be down to one or two now? What's the point of this committee now that we've taken away this responsibility? Are we just going to kind of review the annual report every year, and that's it?

The Chair: Thank you for those comments, Mr. Anderson.

Mr. Anderson: There was a question there.

The Chair: If I can ascertain the question, I'll answer the question that was directed to me. We actually have as per the agenda an action item that will indicate when our next meeting shall take place. That meeting shall take place prior to one of the big mandates of this committee, which is reporting to Albertans, which will take place later on in the fall. At this current time there is no intent to curtail or increase the number of meetings that have been typical of this standing committee.

Mr. Dorward, last question, please.

Mr. Dorward: Yeah. It's just a comment relative to why we have the committee. I have had people come to me and say that we're sitting on an all-party committee of MLAs, who have the ability to take in information from all Albertans, and some have come to me and asked me questions. Any time I've had to talk to the Auditor General or Dr. de Bever about the things that happen in the trust fund, I have answered and communicated to those individuals. We certainly communicate with individuals in the fall. I think there's a lot of value still in terms of that component, Mr. Chair. I don't know that the business plan is. We're reporting on the activities and being a funnel for people to be able to talk to MLAs who sit on the committee.

The Chair: Thank you, Mr. Dorward.

Mr. Anderson: Mr. Chair, could I ask a follow-up question now that he's had two?

The Chair: Very quickly. We're running short of time, Mr. Anderson. In respect of time, very quickly.

Mr. Anderson: I'd just like to understand the purpose of this committee now because what I just heard is that our job is to funnel information from Dr. de Bever and AIMCo to our constituents, which I could do whether we met in committee or not. What is the point of the committee? Can somebody answer the question?

The Chair: Mr. Anderson, I'll refer to the mandate and the authority of this committee. This committee

> annually reviews and approves the fund's performance and annual report; receives and reviews the quarterly reports on the fund's operations and results; holds public meetings with Albertans to report on investment activities and results; and reports to the [Legislature] on whether the mission of the fund is being fulfilled.

With that, we'll move on to the next agenda item.

Mr. Anderson: But does that not change now? That last part of the mandate: has that not changed?

The Chair: The only part of the mandate, sir, that has changed is the elimination of the review of the business plan. Everything else is intact.

Mr. Anderson: We can still talk about whether the fund is being used appropriately as per the fourth item that you said we still have a mandate to do?

The Chair: The performance of the fund, sir.

With that, Mr. Anderson, we're going to move on now to agenda item 6, which is an information item, update on website hits for the Alberta heritage savings trust fund website. For members' information Alberta Treasury Board and Finance is responsible for the Alberta heritage savings trust fund website, and officials have been asked by previous committees to provide quarterly updates on the usage, or hits, on the site to help track public interest in the fund throughout the year. Unless members do not wish to receive these brief updates, we'll continue with this practice. A memo addressing website hits for the period of February to June 2013 was included with the briefing materials for the meeting. I believe that shows that between February and June there were approximately 53,000 hits to the website. Okay? Again, this is an information item, and there is no action required.

We'll move on to item 7, which is other business. Does anyone have any items or other business to raise?

Not seeing any, we will move on to item 8, which is the date of the next meeting. Just to let you know, I will canvass the committee for a meeting during the first week of September to review the first-quarter report on the fund for 2013-2014 as well as the communications action plan for our public meeting. Please pay attention to that meeting notice.

This brings us to item 9, which is adjournment. Could I have a motion to adjourn the meeting?

Mrs. Jablonski: I move to adjourn the meeting.

The Chair: All in favour? Against? That motion is carried.

Thank you, all. Thank you to everybody participating. Special thanks to Minister Fawcett and Dr. de Bever and all of your associated staff. Thank you so much for being here and for answering our questions.

[The committee adjourned at 4:27 p.m.]

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