Legislative Assembly of Alberta

The 31st Legislature
First Session

Standing Committee
on the
Alberta Heritage Savings Trust Fund

Tuesday, October 1, 2024
9 a.m.

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Alberta Heritage Savings Trust Fund

Yao, Tany, Fort McMurray-Wood Buffalo (UC), Chair
Rowswell, Garth, Vermilion-Lloydminster-Wainwright (UC), Deputy Chair

Boitchenko, Andrew, Drayton Valley-Devon (UC)
Bouchard, Eric, Calgary-Lougheed (UC)
Brar, Gurinder, Calgary-North East (NDP)
Hunter, Grant R., Taber-Warner (UC)
Kasawski, Kyle, Sherwood Park (NDP)
Kayande, Samir, Calgary-Elbow (NDP)
Wiebe, Ron, Grande Prairie-Wapiti (UC)

Also in Attendance

Deol, Jasvir, Edmonton-Meadows (NDP)

Office of the Auditor General Participants

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Tim Lamb	Principal

Support Staff

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Nancy Robert	Clerk of *Journals* and Committees
Abdul Bhurgri	Research Officer
Rachel McGraw	Research Officer
Warren Huffman	Committee Clerk
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Standing Committee on the Alberta Heritage Savings Trust Fund

Participants

Ministry of Treasury Board and Finance
Brittany Jones, Director, Investment Strategy, Capital Markets
Sheldon Wagner, Director, Investment Policy and Governance, Capital Markets

Alberta Investment Management Corporation
Paul Langill, Chief Financial Officer
Amit Prakash, Chief Fiduciary Management Officer

9 a.m. **Tuesday, October 1, 2024**

[Mr. Yao in the chair]

The Chair: All right. With that, I'd like to call this meeting of the Standing Committee on the Alberta Heritage Savings Trust Fund to order and welcome everyone in attendance. I'm Tany Yao. I'm the MLA for Fort McMurray-Wood Buffalo, and I'm chair of the committee.

We'll start off with some introductions here, so we're going to start off to my right, and then I will call on all members individually on the phones to introduce themselves. I also ask, if you have the ability, to turn on your camera when you speak. With that, let's start to my right.

Mr. Rowswell: MLA Garth Rowswell, Vermilion-Lloydminster-Wainwright.

Go ahead.

Mr. Langill: Oh, sorry. Paul Langill, chief financial officer for Alberta Investment Management Corporation.

Mr. Prakash: Good morning. Great to be here. Amit Prakash, chief fiduciary management officer, AIMCo.

Ms Jones: Good morning. Brittany Jones, director of investment strategy at Treasury Board and Finance.

Mr. Wagner: Good morning. Sheldon Wagner, director, investment policy and governance with Treasury Board and Finance.

Mr. Lamb: Good morning. Tim Lamb, Auditor General's office.

Mr. Kasawski: Good morning. My name is Kyle Kasawski, MLA for Sherwood Park.

Ms Robert: Good morning. Nancy Robert, clerk of *Journals* and committees.

Mr. Huffman: Good morning. Warren Huffman, committee clerk.

Mr. Wiebe: Good morning. Ron Wiebe, MLA, Grande Prairie-Wapiti.

Member Kayande: Good morning. Samir Kayande, MLA for Calgary-Elbow.

Mr. Bouchard: Good morning, everyone. Eric Bouchard from Calgary-Lougheed.

Mr. Hunter: Good morning. Grant Hunter, MLA for Taber-Warner.

Mr. Boitchenko: Good morning. Andrew Boitchenko here, MLA for Drayton Valley-Devon. I'm up north visiting First Nations for my truth and reconciliation visits, and if it's okay to have my video off because I'm at one bar of data here, so it would conflict with my speech, I guess. If that's okay.

The Chair: Absolutely. That's fine. Thank you so much. You look wonderful.

Mr. Boitchenko: Thank you.

The Chair: All right. We have a few housekeeping items to address before we turn to the business at hand. Please note that the microphones are operated by the *Hansard* staff. Committee proceedings are live streamed on the Internet and broadcast on Alberta Assembly TV. The audio- and videostream and transcripts of meetings can be accessed via the Legislative Assembly website. Those participating by videoconference are encouraged to please turn on their camera while speaking and mute your microphone when not speaking. Members participating remotely who wish to be placed on the speakers list are asked to message the committee clerk, and those in the room should signal the chair or the committee clerk. Please set your cellphones and other devices to silent for the duration of our meeting.

With that, the approval of the agenda. This was made available to all members. Does anyone have any changes or additions to the draft, and if not, would someone please approve the draft?

Mr. Kasawski: I move to approve.

The Chair: Mr. Kasawski motions to approve the agenda. All right. Perfect. With that, moved by Mr. Kasawski that the Standing Committee on the Alberta Heritage Savings Trust Fund approve the proposed agenda as distributed for its October 1, 2024, meeting. All in favour, please say aye. On the phones, please say aye. Any noes out there? Perfect. That motion is carried.

All right. Next we have the draft minutes from our June 24, 2024, meeting. Do members have any errors or omissions to note, and if not, would someone like to make a motion to approve the minutes?

Mr. Rowswell: I'll move.

The Chair: Mr. Rowswell moves that the Standing Committee on the Alberta Heritage Savings Trust Fund approve the minutes as distributed of its meeting held on June 24, 2024. All in favour in the room, please say aye. All opposed in the room, no. On the phones, all approving, please say aye. Any noes out there? Perfect. That motion is carried.

The Alberta Heritage Savings Trust Fund Act requires that this committee receive and review quarterly reports on the operation and results of the heritage fund accordingly. Here we are today to review the 2024-2025 Alberta heritage savings trust fund first-quarter report. The report was publicly released on August 29, 2024, and a copy was made available to the members on the internal committee website. We are pleased to have officials from the Ministry of Treasury Board and Finance, AIMCo, and the office of the Auditor General joining us to provide an overview of the report and answer any questions that members may have.

With that, I will turn the floor over to Treasury Board and Finance and AIMCo for your presentations. Please.

Ms Jones: Thank you, Mr. Chair. Good morning, committee members, colleagues, and guests. My name is Brittany Jones, director of investment strategy at Treasury Board and Finance. I am joined by my colleague today, Mr. Sheldon Wagner, who is the director of investment policy and governance at Treasury Board and Finance. We're here to present the results of the Alberta heritage savings trust fund for the first quarter of fiscal 2024-25.

The heritage fund began the fiscal year on a very positive note, with a 2.1 per cent net-of-fee return for the first quarter, tracking ahead of its benchmark by .1 per cent. This helped establish another new high for the fund in line with a recent positive trend, that brings its total market value to $23.4 billion as of June 30, a $509 million increase over the $22.9 billion market value that the fund ended at at the end of the fiscal year 2023-24.

All major asset class categories were positive during the quarter. Equities were the best performing asset class overall, with a 3.3 per cent return for the quarter. This was supported by 4.3 per cent and 3.7 per cent returns in global and private equity allocations, which more than compensated for a .9 per cent decline in Canadian equities.

The overall fixed-income allocation returned 1.3 per cent, which was slightly higher than the 1.1 per cent returned by the inflation-sensitive and alternative portfolio. Among alternative asset classes, renewables and privately held infrastructure assets were the best performing during the quarter, rising 2.4 per cent and 1.8 per cent respectively. Overall market performance was supported by expectations for lower interest rates as broader market sentiment benefited from a moderation in inflation outlook across developed markets, even as challenging economic and fiscal conditions persist.

The heritage fund has two main benchmarks to gauge its performance. The first is for the fund to outperform a real return target equal to the Canadian consumer price index plus 450 basis points over a five-year rolling period. The second is for our investment manager to outperform a passive benchmark by a margin of 100 basis points. These targets represent the returns that the asset manager at AIMCo is expected to surpass over the long run.

The trailing five-year return for the fund stood at an annualized rate of 6.6 per cent. While this has helped expand the fund's net assets by $5.6 billion since the fiscal year-end in 2020-2021, it is still 50 basis points behind its inflation target and 1.1 per cent short of its passive target.

Growth assets represent 46 per cent of the portfolio and returned 11.6 per cent over the trailing five-year period, 60 basis points ahead of its asset class benchmark. Fixed income, whose 1.9 per cent five-year return on its allocation, which is about 23.5 per cent of the portfolio, outpaced its corresponding asset class benchmark by a similar margin.

The main laggard in this regard, however, was the allocation to alternatives and inflation hedges, which represents about 30.2 per cent of the portfolio at the end of the first quarter. Its 2.3 per cent trailing five-year return fell short of its corresponding benchmark, which is quite based on inflation, by 150 basis points over the same period. The implication is that the allocation to the inflation-sensitive portion of the portfolio did not necessarily help the portfolio with the recent inflationary surge. However, positive lagged effects may kick in for this portion of the portfolio if inflation continues to witness a downward trend in the coming quarters.

Finally, the trend of rising costs did persist throughout the quarter, with a $44 million expense, rising $5 million from the previous year. This represents about a 12.8 per cent increase over the same period.

This concludes my prepared remarks on the first-quarter results. I will pass the floor over to my AIMCo colleagues.

Mr. Prakash: Thank you, Ms Jones, and, again, good morning, all.

I'll pick up from where Ms Jones ended in that I'm pleased to report that the heritage fund was up 2.1 per cent for the quarter, slightly ahead of the benchmark. Ms Jones described the key drivers of this 2.1 per cent across different asset classes, and we can get deeper into it as part of the Q and A session. Post June 30 the markets performed strongly, and, as we will discuss in future meetings, the overall return for the fund for the period ending September 30 was also strong.

9:10

On the markets front, the Federal Reserve in the U.S. as well as the Bank of Canada have started to loosen monetary policy, and primarily the focus in the markets has been what the expectation is in terms of the lowering of interest rates relative to what the banks actually do. Thus far it's been in reasonable sync other than the expectations, perhaps, for greater easing of interest rates at the beginning of the year relative to where we are right now.

On the credit front, the spreads remain quite tight. However, notwithstanding the air pocket the markets hit in August, the credit markets remain quite robust. The fundamentals are strong and the defaults are modest given where we are in the cycle.

Then, finally, on the equities, the upside is limited by high valuations and moderating earning expectations, though it was good to see that for the quarter that ended yesterday, for the first time in over roughly eight to nine quarters, the best performing sector wasn't technology; it was industrials, followed by financial instead, so broadening of the growth in the market. That's been good.

Positioningwise, from a tactical asset allocation perspective, we are slightly long duration. Said another way, if rates continue to fall, the portfolios will benefit. Relatively flat on equities, whilst also tilting the equity portfolios towards a value tilt and effectively just taking a more defensive posture, given where we are. And, finally, from a risk management perspective, the risk metrics that we monitor, measure, report for the heritage fund, they seem in a healthy spot. They're well within the limits, and, likewise, the total fund liquidity, also that we monitor and report closely, you know, that remains in a pretty good spot.

Then, finally, on the organizational front, we announced that Dr. Marlene Puffer, who was the chief investment officer, has stepped away as CIO of AIMCo. As a result, we reviewed how we would structure the investment leadership of the organization and have a structure now in place, that we announced, that we think will be very robust, very resilient, and relies on the talent that we have in-house. And as part of that announcement, David Scudellari, who's been with the organization for a few years, will take on the role of senior executive managing director, global head of private assets and strategic partnerships.

Justin Lord will be global head of public markets and will join the executive committee. Justin has been with AIMCo for over 10-plus years. And then, finally, Kevin Bong, who remains in his job as chief of investment strategy and head of Singapore, will also report to Evan Siddall, the CEO. He will focus on cross-market positioning. Mr. Siddall, the AIMCo CEO, will chair the investment committee. We think this is a robust structure and will serve our clients well.

I'll turn it over to Paul, just for brief remarks.

Mr. Langill: Thank you, Amit, and, again, good morning. My name is Paul Langill. I'm the chief financial officer of AIMCo. A pleasure to be here today.

I want to touch on a few points in addition to Amit's opening remarks. The first one is our business transformation. We did refresh our corporate and investment strategies back in 2022, and we moved into executing on our strategy by launching our business transformation program in April of last year. So we've been about a year and a half into it by now. It is a multiyear program designed to simplify our operating model, enhance our investment management capabilities, and replace a lot of data technology. We are buying an integrated investment platform, and we're building a modern data platform. The total program cost is estimated at about $130 million over a four-year period.

On just investment expenses overall: our costs are charged to clients on a cost recovery basis. There are, really, two broad cost categories, investment costs and then performance-based costs. Investment costs would be salaries, benefits, technology, data as well as external manager fees whereas performance-based costs are really driven by investment performance. Our cost budgets are approved by our board of directors, and we also engage all of our clients. We consult with all of our clients on our budget prior to board approval.

Finally, every year our costs are benchmarked by an independent third party against our peers. Over the last five years on average our costs are about 15 to 20 per cent below our peers.
With that, I'll turn it back to the committee. Thank you.

The Chair: Thank you so much for that.
Now I'll look to committee members to ask any questions they might have on the report.
Oh, sorry. Before I forget here, we have a member joining us. Mr. Deol, please introduce yourself.

Mr. Deol: Good morning, everyone. Jasvir Deol, MLA, Edmonton-Meadows. I'm substituting for my friend Gurinder Brar, MLA, Calgary-North East.
Thank you.

The Chair: All right. Thank you very much for that. For the record that's an unofficial substitution. There was no paperwork put in, I'm afraid.

Mr. Deol: Well, I thought it was done. He said it was, but . . .

The Chair: That's okay. We enjoy seeing your smiling face.
All right. With that, Mr. Rowswell had a question.

Mr. Rowswell: Yeah. Thank you for being here. I'd like to look at the report of the first quarter of the heritage trust fund and highlight some information on page 1. Like you've mentioned, you had a 2.1 per cent return in the first quarter, and, you know, I'd just like to elaborate a little bit on how that was obtained. Also, we're a little bit ahead of the benchmark. I think this might be below what you try to be above the benchmark. If we can get some feel for how you are online or whatever for the year. But if we could start with: just expand on the first-quarter results and then also relative to the benchmark.

Mr. Prakash: Yeah. Thank you for the question. Firstly, as you've heard us say before, our focus on managing the heritage fund remains in the longer term and recognize that quarter over quarter, you know, there are bumps both up and down from a performance perspective. Just at a headline level the three categories or three buckets of investments that the heritage fund is invested in: all of them performed positively. The money market and fixed income were up 1.3 per cent, the equities were up 3.3 per cent, and the inflation sensitives and alternatives were up roughly just over a per cent. That was good to see, all of them coming back, particularly in the inflation-sensitive and alternative bucket, where real estate has suffered post COVID and the rise in the interest rates.
Firstly, equities benefited by positive sentiment in the market, and there's been a pretty consistent risk-on mode, which has seen equity, certainly south of the border, up north of 20 per cent and likewise across the globe. That's been quite positive.
Secondly, the downward trend in inflation relative to one, two, three years ago has benefited fixed-income markets across the spectrum in a variety of ways, and you're starting to see the returns in fixed income also turn around. Real estate finally, certainly in certain areas, is starting to find a bit of a footing.

9:20

We do think that on the office building side we're still maybe 12, 15 months away from the restructuring to work through the markets. But certainly on the other family of inflation sensitive such as infrastructure, such as renewables with the inflation coming off, those asset classes will start to look more attractive and, you know, we're starting to see the green shoots on that front.
Finally, whilst in the short term the portfolio is not insulated from geopolitical issues, there is a big election south of the border, and therefore the knock-on impact on policy may impact the portfolios. That's where we are sort of from a 2.1 per cent perspective.
Then from an excess return perspective relative to the benchmark, one of the things we certainly keep a close eye on are the five- and the 10-year numbers. The five-year numbers still have the material impact from COVID, still a part of it, and therefore it is closer to zero; slightly below zero, in fact. The 10-year number is a lot healthier over the longer cycle, and we are confident that given the structure and the diversified nature of the portfolio, the heritage fund is well positioned.

Mr. Rowswell: Yeah. Just on the fixed income, like, what is your goal to outperform the benchmark? Like, how much? Because it's harder to outperform in a material way. I was just wondering what the benchmark overperformance that you're striving for is?

Mr. Prakash: The fixed income, firstly, comprises all the way from the broader Canadian universe type portfolio. Within that family there are mortgages, there's private credit and loan. Across this range, relative to the benchmark, it ranges anywhere from 30 to 75 basis points. All of this is specified specifically in the product descriptions that we engage with clients on and have been engaging on over the last few years.

Mr. Rowswell: Thank you.

The Chair: Do you have a question about that, Mr. Kasawski?

Mr. Kasawski: Absolutely.

The Chair: Go ahead.

Mr. Kasawski: Okay. Thank you, Chair.
My question is really not about the quarterly report. It's a fine quarterly report, but I just want to – on November 6 we're having our public meeting, and if you recall, on February 28 the Premier took to the air to make a commitment that our fund will grow from its levels now, about $23 billion, to, I think, between $250 billion and $400 billion. So for that public meeting on November 6 will you be prepared to answer how we'll meet that commitment that the Premier has made?

Ms Jones: Thank you for the question. The Premier did promise a road map to the public by the end of the year, and the department is working on a road map that will be presented to the public. The timing of when all that will be communicated is not necessarily known at this moment in time, but we will definitely be ready to speak to the public during that public meeting about what we're supposed to be speaking about, which is the annual report.

Mr. Kasawski: I just would suggest that you're going to probably get very direct questions about that and it might be better to be ready by November 6. I believe the Premier said: later this year.

Ms Jones: Yes.

Mr. Kasawski: Yeah.

Ms Jones: Yes, but no time has been specified.

The Chair: Mr. Hunter, do you have a question for us?

Mr. Hunter: I do, actually. I just was looking at the 2018-2019 report on the Alberta heritage savings trust fund, and it sat at $18.2 billion. Now, by the end of this fiscal year it will probably be closer to $25 billion. My question is about capacity and the ability to invest with more money coming in. I mean, for many years there was no new money coming in. We were using it and governments were using it to do operations. How are you restructuring your capacity or capabilities of this new injection of money? Do you have a plan for that?

Mr. Prakash: Yes. Well, thank you for the question, and a great, great question. Managing capacity is very important for the health of the portfolio. So a couple of things. First and foremost, one of the things that we've done roughly over the last two years or so is that we have started a function group headed by David Scudellari that focuses on strategic partnerships. What that does is that, relative to using or investing the dollars across a wider range of third-party partners, there's a focused and intentional effort to do that with a smaller group of entities which we have a stronger partnership with. The benefit of it is that we get better access, particularly in the private markets, to transactions and deals. We get better economics, particularly to the extent that we have co-investment or direct investment opportunities, and that allows us to, in many ways, punch above our weight as we take in dollars, additional monies from clients, including the heritage fund.

The second leg of increasing the opportunity set as the size of the fund grows is to ensure that we are looking not only at current opportunities but a growing opportunity set, and therefore as part of our investment strategy development one area that we've been focused on is looking at opportunities in Asia as well. Part of that thinking is what led to opening up of the Singapore office, a small footprint, but at least that is focused on infrastructure. That happened over the last 12 months.

And then, finally, developing an operating platform that is built and fit for purpose for both the larger dollars in terms of AUM but equally fit for purpose from incorporating newer technologies, and that was the update that Paul provided, that Mr. Langill provided, in terms of improving the operating platform. Those are some of the things, Mr. Hunter, that we've been focused on.

Mr. Hunter: Great. Well, thank you, and, you know, it's exciting to be able to see the new movement. I mean, it's been many years that the Alberta heritage savings trust fund hasn't had a new injection of cash, so I'm excited and I think that Albertans are excited about seeing what you guys can do with that.

Thank you so much.

The Chair: Mr. Kayande.

Member Kayande: Thank you. A question about the rise in expenses. I assume some of that is, as you just alluded to, the cost of the Singapore office, the cost of the New York office. To what extent would you say – are these, like, in support of increasing the allocation to private credit, for example, or is there going to be a substitution effect where we're going to see declines in third-party management and associated declines in third-party management fees that are effectively going to be in-sourced?

Mr. Prakash: Maybe I'll just start and then turn it over to Paul. Firstly, again, thank you for the question. The strategic allocation, or policy mix, is determined by clients, including the heritage fund. We certainly move the portfolio around within the ranges associated with those allocations, so there may be some movement or there has been some movement across asset classes, but by and large a big portion of that decision is something that we are recipient of.

Now, in terms of costs I will turn over to Mr. Langill to speak to that.

Mr. Langill: Thank you, Mr. Prakash. From a year-over-year perspective in the report the expense increase is primarily driven by investment performance, primarily external managers. As what I said earlier on, I think we are making a significant investment in our technology and data, and that's going to be over a four-year period, and we have seen our costs increase over the last number of years. I think some of that was really catch-up under investment that we need to make right now, but I think as we work through this program, our costs will plateau. Then the expectation is that it will start coming down as the AUM increases. So from a basis points perspective we should see a flattening and then a decline in the future as our AUM grows, but the cost increase you're seeing in the quarter 1 report is prominently due to investment performance-related costs.

9:30

Member Kayande: Thank you. That's really interesting. What proportion of that cost increase do you think is because of investment performance? Do you have a percentage?

Mr. Langill: I think about $4 million of the cost year over year is investment performance related.

Member Kayande: Okay. Thank you. Do you have some sort of way of looking at costs, like, assigning them to strategy, or is that just too complicated? By strategy I'm thinking, you know, private credit, for example, or public markets. Some of the – I assume private equity is, for example, just more expensive. Is that a right way of thinking about it?

Mr. Langill: Yeah. In general the illiquid asset classes like private equity are more expensive than the liquid ones like public equities and public fixed income. From a third-party cost, so external investment management fees and performance fees: those are contractual, and they're specifically assigned to the asset class from which they work within. Our internal costs: we do have a cost recovery model, or an allocation model, based on predominantly effort and then data costs, technology costs, that is used in each of the asset classes.

What you'll see over time: the illiquids, like private investment asset classes, are more expensive or more costly. I think the fact of the matter is that it's just more manual, you know, from an operating perspective, and you don't have necessarily the scale as you do in, let's say, public equities or fixed income, where you can process a lot of transactions using technology. For the private equity side it's much more hands-on, and you can imagine deal sourcing, deal pursuit costs, et cetera.

Member Kayande: Thank you.

Can I keep going, or are there other questions?

The Chair: We'll alternate to Mr. Bouchard, and then I'll come back to you, all right?

Member Kayande: Okay. Great. Thanks.

The Chair: Mr. Bouchard.

Mr. Bouchard: Great. Thank you, Mr. Chair. Inflation-sensitive and alternative assets posted a 1.1 per cent return in the first quarter. Real estate, the largest category of holdings by percentage at 16.7 per cent, only shows .5 per cent return compared to 1.8 per cent for private infrastructure and 2.4 per cent for renewables. Now, you touched on real estate. I guess my question is: why is it that the real estate performance is noticeably weaker than private infrastructure and renewable resources?

Mr. Prakash: Thank you for the question. The real estate portfolio, amongst other things, holds office buildings as well as retail investments such as Yorkdale shopping malls, et cetera. Particularly since COVID the office sector has certainly been impacted as many businesses initially resorted to work from home. The way back, however, in many markets hasn't been to the level that prevailed pre the pandemic, so they were impacted in a significant manner. Likewise, the retail sector was also impacted by COVID. That has started to come back quite well, but there is some change in composition in terms of what you see in the shopping malls and in the retail sector.

Finally, there are always opportunities, particularly as areas, as sections of the market are weak. For example, even in real estate we're starting to see opportunities in grocery-led retail malls. We bought something in Calgary over the last 12 months which we think is quite attractive.

In terms of the other members of the inflation sensitive that you mentioned – infrastructure, renewables, et cetera – one of the things that the infrastructure portfolios have been impacted by as the interest rates went up is the funding costs, particularly if they were looking to expand. You know, that went up and therefore impacted the portfolio, and, likewise, in addition to funding, also the operating costs to the extent that the interest rates were higher. From both of those perspectives, as we look in the rearview mirror, they have weakened. In the longer term both those asset classes have performed very strongly.

Thank you.

Mr. Bouchard: Great. Thanks very much.

The Chair: Mr. Kayande, you had another question?

Member Kayande: I do. Thank you very much, Mr. Chair.

This is a question about benchmarks and how they're determined. I think I may have asked about this, like, in every single meeting I've been to, and every time I find more things to talk about, I guess. How would you describe the volatility of the value addition, like, on a quarterly basis, on an annual basis? Have you looked at whether it's related to fund returns, to specific factor risks, or is it really, truly an alpha that's independent of all those factors?

Mr. Prakash: Thank you. An excellent question, and one of the hardest in our industry in terms of assessing skill versus luck. All else equal, the longer the data series, the better confidence you have whether a manager truly has skill or luck. So, again, a couple of thoughts. First and foremost, in addition to tracking performance, of course, you know, that we see in front of us, we diligently also track various metrics of risk, both on a forward-looking basis as well as on a backward-looking basis.

One of the things I can share with the committee here, one of the lessons learned, particularly after March 2020, was that in some of our portfolios, some of the, if you will, excess, redundant, or alpha-seeking strategies – and pardon sort of the geek speak for a minute – of a procyclical in that, you know, those strategies tended to do well when the markets were doing well and less and poorly when the markets were doing poorly. One of the things that we've been working on, particularly on the equity portfolio, is to be very intentional and deliberate about reducing those types of excess return seeking strategies, which are procyclical. So you want, ideally, your alpha strategies to be kicking in as the markets are turning down and vice versa. So that's one.

Number two, over the last year and a half or thereabouts, in consultation with clients, we have launched an absolute return strategy. What that does is that insulates it from the ups and downs in the market. This year that strategy is up I'm going to say around 6 per cent or thereabouts. But, again, the idea is exactly to your point, that you want to infuse more countercyclical sources of excess return rather than ones that are more aligned with the market cycles.

Member Kayande: So how would you – if I'm paraphrasing what I believe you said, that AIMCo or the heritage fund has had a tendency for alpha generation to be more procyclical than maybe is truly alpha, but now with changes and strategies, are you mitigating that? Has it been completely corrected, do you think? You know, what's the prognosis?

Mr. Prakash: So let me – I'll rephrase. You know, it wasn't that we persistently had cyclical alpha; it was simply in pockets of it in a way we did have it, and that is the part that got corrected. The second part, just for completeness, a big chunk of the portfolio is invested in illiquids, and the notion of, you know, alpha in a traditional public market thing doesn't really translate over, so that's a big chunk of the portfolio. What I was referring to was, again, a specific area within public equities which has been improved upon.

9:40

The second part, which may be a bit of a cliché, is that part of the journey of any successful investment platform is to be learning constantly from the markets, and evolving and improving. That's the category that I would describe as the focus; the changes that we've made.

Finally, because the markets evolve, the macroenvironment evolves, it isn't something that is necessarily, you know, completed. This is something that we would need to be mindful of, you know, five years from now, 10 years from now, I'm certain.

Member Kayande: Okay. Thank you very much.

The Chair: If there are no further questions, the committee should now consider a motion to receive the first-quarter report.

Mr. Kasawski: I move that we receive the first-quarter report.

The Chair: Thank you, Mr. Kasawski. Mr. Kasawski moves that

> the Standing Committee on the Alberta Heritage Savings Trust Fund receive the 2024-2025 first-quarter report on the Alberta heritage savings trust fund.

All in favour, please say – I'm sorry?

Mr. Huffman: Discussion.

Ms Robert: It's a debatable motion.

The Chair: Right. Is there any discussion on this motion, please?

Seeing none, all in favour of the motion, please say aye. On the phones? Anyone opposed? Seeing none,

> that motion is carried.

That will conclude today's business with respect to the fund's first-quarter report. I'd like to thank our guests from AIMCo and Treasury Board and Finance as well as the Auditor General for being here today. Thank you all so much, and thank you for your service.

All right. AIMCo has provided a written response to questions asked at the committee's June 24, 2024, meeting. The response was posted on the committee's internal website for committee members. Are there any concerns or questions about that or other issues? I see none. On the phones, do you have any concerns, questions, comments? I see none.

Mr. Kasawski: Chair?

The Chair: Yes, go ahead, Mr. Kasawski.

Mr. Kasawski: Not wanting to draw out the meeting, but that November 6 meeting, will we be in this room? Has that been . . .

The Chair: Yes.

Mr. Kasawski: And I just will note that Airdrie is having Airdrie in the evening across the room on the same floor, so, I mean, I just want to make sure we have the space required for it. I don't know that it'll change attendance, but . . .

The Chair: No worries. No worries.

All right. With that, I think we can conclude today's meeting. The committee's next meeting will be the event on November 6 from 6:30 to 8:30 in the evening.

With that, if there's nothing else for consideration, I'll ask for a motion to adjourn. Mr. Rowswell moves that the October 1, 2024, meeting of the Standing Committee on the Heritage Savings Trust Fund be adjourned. All in favour, please say aye. On the phones? Anyone opposed? That motion is carried.

This meeting is adjourned. Thank you all so much.

[The committee adjourned at 9:43 a.m.]

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