Alberta

2016–2017 ANNUAL REPORT
Alberta Heritage Savings Trust Fund

Heritage Fund

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HIGHLIGHTS

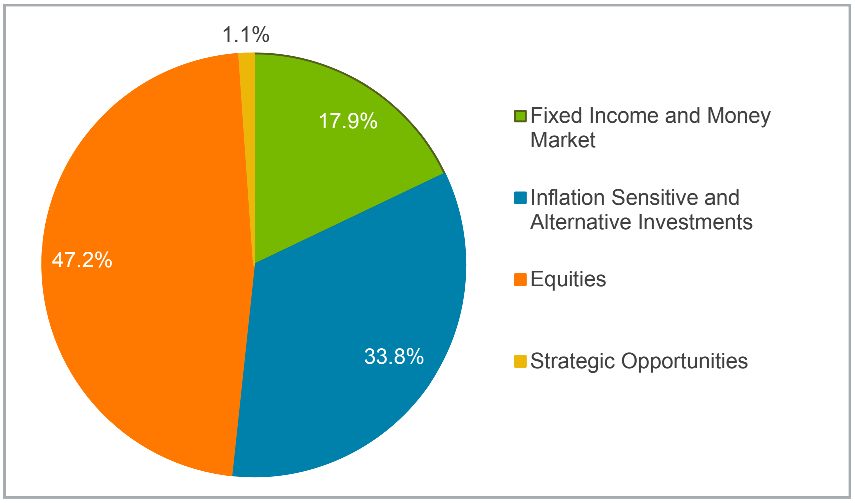
10.7% (net of fees)

1 YEAR RATE OF RETURN

$17.5 billion

FAIR VALUE OF NET ASSETS

Asset Mix as at March 31, 2017



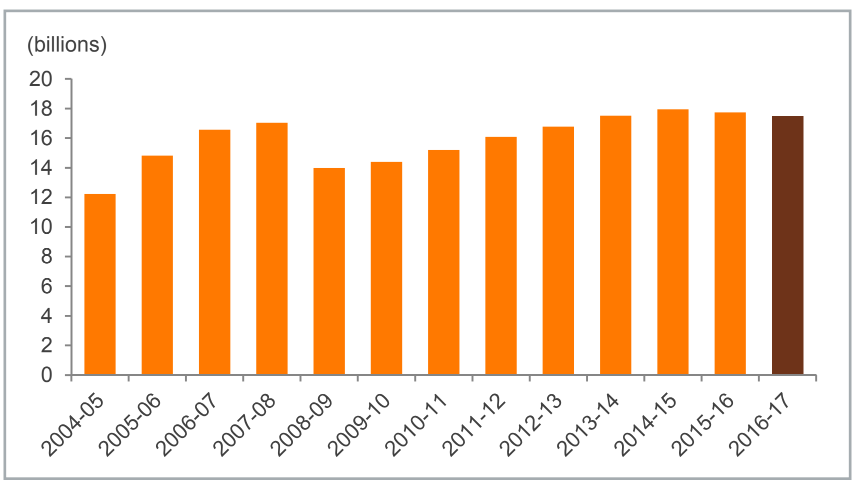
6.8% net of fees

10 YEAR ANNUALIZED RATE OF RETURN

$2,151 million

INVESTMENT INCOME TRANSFERRED TO GENERAL REVENUES

Market Value at Fiscal Year End



$182 million

INVESTMENT INCOME RETAINED FOR INFLATION-PROOFING

$41.4 billion

CUMULATIVE TRANSFERS TO GENERAL REVENUE FUND SINCE INCEPTION

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MESSAGE FROM THE PRESIDENT OF TREASURY BOARD, MINISTER OF FINANCE

The Heritage Fund posted a strong performance in 2016-17, surpassing its benchmarks and producing record net investment income of $2.3 billion.

Global equity markets saw excellent returns and Canadian markets were strengthened by improving returns in the energy sector as crude oil rebounded from multi-year lows. As a result, net investment income for the Heritage Fund exceeded expectations from budget and pushed past the previous record of $2.1 billion in 2013-14.

Following the economic downturn brought on by the sharp and prolonged oil price shock, our government is focused on supporting economic recovery today and building a diversified, more resilient economy for the future. The Heritage Fund plays an important role in this effort, with income that helps us protect the programs and services Albertans count on and investments that support business growth in Alberta.

In 2015, our government established the Alberta Growth Mandate, giving the Alberta Investment Management Corporation (AIMCo) a sharpened focus on Alberta. Under this mandate, AIMCo has independently invested nearly $198 million from the Heritage Fund in support of growth opportunities in the province that will provide a long-term financial return that benefits Albertans.

Investments made under the mandate follow the Fund's legislated goal to maximize long-term return at a prudent level of risk. The mandate provides an additional focus on opportunities for job creation, building new infrastructure in Alberta, economic diversification and growth, connecting Alberta companies to export markets and developing expertise within the province.

AIMCo's operationally independant management of the Heritage Fund demonstrated value, with the Fund's investments earning a 10.7% rate of return, exceeding its benchmark of 10.1%. The Fund also surpassed long-term benchmarks, returning 11.0% for the five-year period ending March 31, 2017, and 6.8% over the past 10 years.

Alberta's Heritage Fund is, and will continue to be, our province's long-term savings vehicle that makes life better for Albertans now and in the future. It contributes to the strongest balance sheet among the provinces, helps ensure we have the capacity to invest in people at a time when they need it most, and supports economic growth for a prosperous future.

[Original signed by Joe Ceci]

Honourable Joe Ceci

President of Treasury Board, Minister of Finance

ABOUT THE HERITAGE FUND

1976
Inception of Fund.

1982
Natural resource revenue transfers cut to 15 per cent from 30 per cent.

1987
Natural resource revenue transfers halted.

1995
Government surveys Albertans on Fund's future. Survey results show Albertans strongly in favour of a Fund that generates long-term returns.

1997
Heritage Fund restructured: Economic and social development mandate ended as Fund is now only for long-term return generation. Standing Committee of the Legislature implemented to oversee Fund.

WHAT IS THE HERITAGE FUND?

The Alberta Heritage Savings Trust Fund ("Heritage Fund" or "Fund") is Alberta's main long-term savings fund. Originally, the Fund was established to collect a portion of Alberta's non-renewable resource revenue for future generations.

WHEN WAS THE HERITAGE FUND ESTABLISHED?

The Heritage Fund was created in 1976. Initially, 30 per cent of Alberta's non-renewable resource revenues were deposited into the Fund. As Alberta experienced tough economic times in the early 1980s, this percentage was reduced to 15 per cent in 1982 and deposits were halted in 1987.

The Alberta government resumed depositing money into the Heritage Fund in 2005. The government allocated $3.9 billion from budget surpluses into the Fund from 2005 through 2008. Also, since 2005, legislation has required a portion of investment income be retained in the fund for the purpose of inflation-proofing the Fund.

WHAT HAPPENS TO THE INCOME EARNED BY THE HERITAGE FUND?

The Heritage Fund's legislation requires that it retain a portion of its income as protection against inflation. The remaining income is transferred to the Province's General Revenue Fund (GRF). All income from the Heritage Fund is included as a part of the Alberta's revenue as shown in the consolidated annual financial statements.

In 2016-17, the Heritage Fund earned of $2,333 million in net income, $182 million of which was retained in the Fund for inflation proofing and $2,151 million was transferred to the GRF.

WHAT IS THE HERITAGE FUND WORTH TODAY?

The net financial assets of the Fund were valued at $17.5 billion on March 31, 2017.

2006

Legislated inflation-proofing begins: $384 million retained in fiscal 2006.

2007

Government completes deposit of $1.0 billion for Access to the Future Fund. Government contributes an additional $1.0 billion from surplus for second year in a row.

2016

Alberta Growth Mandate introduced.

2017

Record net income of $2.3 billion.

WHO IS RESPONSIBLE FOR THE HERITAGE FUND?

The President of Treasury Board, Minister of Finance is responsible for the Fund and its investments. The Ministry of Treasury Board and Finance looks after the long-term strategy, developing investment policy and monitoring investment performance. The purchase and sale of stocks, bonds and other investments for the portfolio is managed by Alberta Investment Management Corporation (AIMCo).

The performance of the Fund is reported by the President of Treasury Board, Minister of Finance to Albertans annually and quarterly. The Annual Report of the Fund is approved by the Standing Committee on the Alberta Heritage Savings Trust Fund.

ARE THE HERITAGE FUND INVESTMENTS SECURE?

The key to sustainable investment performance is maintaining a diverse portfolio with a long-term focus, prudence, and investment discipline.

The Heritage Fund is managed to earn high returns over the long term and therefore makes investments that carry some risk of market loss, such as equities. These investments can lead to larger variations in the value of the Fund from year to year, but they are expected to earn greater returns over time. The Fund is invested globally and across many asset classes to provide diversification, which reduces the risk of large losses in both the short and long term.

HOW HAS THE FUND PERFORMED OVER THE LONG TERM?

Since March 31, 2012 the fair value of the Fund has increased from $16.1 billion to $17.5 billion, in part due to the legislated inflation proofing which has kept $955 million in the Fund and the growth of investments. Over the last five years, the Fund, has provided $7.7 billion in transfers to the GRF to provide for projects and programs.

HERITAGE FUND GOVERNANCE

The Heritage Fund operates under the authority of the *Alberta Heritage Savings Trust Fund Act*. The Act makes the President of Treasury Board, Minister of Finance responsible for managing the Fund's investments. The Act also created the Standing Committee on the Alberta Heritage Savings Trust Fund, empowering its members with specific responsibilities.

The Minister is responsible for managing the investments of the Heritage Fund, with the objective of maximizing long-term financial returns. Furthermore, the Fund is to be invested in a prudent manner to avoid undue risk of loss and to obtain a reasonable return that will enable the portfolio to meet its objectives.

The Minister is supported in various aspects of the investment management process for the Heritage Fund by two groups: the Ministry of Treasury Board and Finance and AIMCo. The Ministry is responsible for developing the Statement of Investment Policies and Guidelines (SIP&G) for the Heritage Fund, accounting for the Fund, reporting on investments, conducting ongoing research, analysis of asset allocation and risk management for the Fund. AIMCo is responsible for making and managing the investments of the Fund in accordance with the SIP&G. AIMCo is a provincial corporation, headquartered in Edmonton and governed by a board of directors that include senior business and investment management leaders.

The Standing Committee on the Alberta Heritage Savings Trust Fund is an all-party committee of Legislative Assembly of Alberta members responsible under the Act for reviewing the performance of the Heritage Fund at the end of each fiscal year and reporting to the Legislative Assembly. The Committee is also responsible for approving the annual report of the Fund. The Act requires that the Committee hold an annual public meeting. The most recent annual meeting was held on October 27, 2016 at the Federal Building in Edmonton. This meeting was live-streamed over the internet with a live-chat, allowing a greater number of Albertans to participate.

PORTFOLIO CONSTRUCTION

The Heritage Fund's investment goal is to earn a rate of return of 4.5 per cent above the rate of inflation, as measured by the Canadian Consumer Price Index, over a rolling five-year period. To achieve the return objective, the Heritage Fund is invested in a globally diversified asset portfolio. Diversification is the key tool that mitigates risk in the portfolio. The Fund holds a range of assets that react differently in a wide variety of market environments.

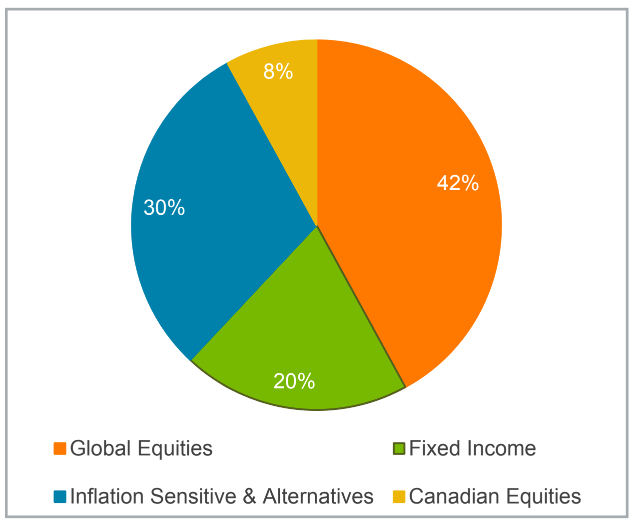
The President of Treasury Board, Minister of Finance approves the SIP&G for the Fund. This document describes the Heritage Fund's target policy portfolio. The policy portfolio provides guidelines for investment strategies available to the Fund. This base portfolio is determined through extensive financial modeling and gives the province the ability to manage risk and position the Fund to meet return targets over time.

AIMCo is mandated to actively manage the Heritage Fund's portfolio within the parameters of the investment policy. AIMCo is expected to use their expertise to find investments that will beat normal market returns over time. The active management target for the Fund is an additional one per cent on top of the return of the long-term policy benchmark.

Some key highlights of the policy portfolio are:

- The Heritage Fund has target allocations to three broad categories: equities, fixed income, and inflation-sensitive and alternatives. The Fund also has the ability to invest in special opportunities that do not fit the parameters of the three broad categories.
- Global focus: Canada represents approximately three per cent of the world's capital markets. While some of the best companies in the global economy are Canadian, there are also attractive opportunities elsewhere in the world. Investing in many different countries and currencies provides diversification benefits.
- Long-term assets: Heritage Fund policy calls for significant allocation to inflation-sensitive and alternative investments, such as allocations to real estate and infrastructure. The Fund has a long-term horizon and can afford to hold longer-lived and illiquid assets. Real estate and infrastructure generally offer stable long-term cash flows and some measure of inflation protection that are important for the Fund.
- Alberta Growth Mandate: The 3 per cent allocation is not included in the long term policy asset mix, as the assets invested under the Alberta Growth Mandate are included in the overall portfolio(see following page for further details on the mandate).

Long-Term Target Policy Asset Mix



ALBERTA GROWTH MANDATE

In the October 2015 Budget speech, the government announced a series of initiatives to provide Alberta companies better access to investment capital. In November 2015, the government gave AIMCo a mandate to invest up to three per cent of the Heritage Fund (approximately $500 million) in investments that directly invest in Alberta growth.

GUIDING PRINCIPLES

The Heritage Fund's primary mandate, as legislated in the Act, is to maximize long-term returns at a prudent level of risk. The Ministry of Treasury Board and Finance, and AIMCo established a set of guiding principles to help frame the type of investments that would satisfy the Alberta growth mandate while maximizing long-term returns. These principles are:

a. Creates jobs in Alberta
b. Builds new infrastructure in Alberta
c. Diversifies Alberta's economy
d. Supports Alberta's growth
e. Connects Alberta's companies to export markets
f. Develops subject matter expertise within Alberta

INVESTMENTS

Since inception of the mandate AIMCo has invested in 17 separate transactions for a total of $195.7 million. AIMCo is continuing to refine the process by which investment opportunities are presented, reviewed and managed within the Hund's current investment structure.

Transaction Date	Company Name	Alberta Growth (million)	Instrument	Sector
Nov. 23, 2015	TransAlta Renewables	$45.9	Equity	Renewable Energy
Dec. 22, 2015	Calfrac Well Services	$6.5	Equity	Oil & Gas
Jun. 10, 2016	Calfrac Well Services	$39.9	Debts with Warrants	Oil & Gas
Aug. 10, 2016	Pine Cliff Energy	$6.1	Interest Bearing Notes/ Warrants	Oil & Gas
Oct. 7, 2016	Journey Energy	$6.1	Interest Bearing Notes/ Warrants	Oil & Gas
Nov. 1, 2015 to Sept. 30, 2016 (approval on Oct. 1, 2014)	10th Avenue Residential	$19.3	Direct Investment	Real Estate
Nov. 1, 2015 to Sept. 30, 2016 (approval on Mar. 23, 2011)	Manning Town Centre	$3.5	Direct Investment	Real Estate
Nov. 1, 2015 to Sept. 30, 2016 (approval on Jul. 23, 2014)	Stonegate Industrial Building A&E	$2.9	Direct Investment	Real Estate
Nov. 1, 2015 to Sept. 30, 2016 (approval on May 25, 2015)	West Village Towers	$0.3	Direct Investment	Real Estate
Nov. 1, 2015 to Sept. 30, 2016 (approval on Sept. 14, 2016)	Stonegate Common Phase I Retail	$0.0	Direct Investment	Real Estate
Nov. 8, 2016 to Dec. 6, 2016	Calfrac Well Services	$1.6	Equity	Oil & Gas
Dec. 13, 2016	Savanna Energy	$45.7	Debts with Warrants + Equity	Oil & Gas
Dec. 12, 2016 to Dec. 30, 2016	Pine Cliff Energy	$0.2	Equity	Oil & Gas
Dec. 15, 2016 to Dec. 23, 2016	Savanna Energy	$0.4	Equity	Oil & Gas
Jan. 31, 2017	Razor Energy	$7.2	Loan Facility/Common Shares	Oil & Gas
Feb. 17, 2017	Perpetual Energy	$10.1	Debts + Equity	Oil & Gas
Mar. 3, 2017	Journey Energy	$2.6	Warrant Exercise	Oil & Gas
Total Investments to date:		**$198.3**		

THE 2016-17 YEAR IN REVIEW

For the first time in several years, the global economy saw broad-based growth in 2016-17. Growth in developed economies was driven by continued expansion in the US and a measured recovery in Europe, while continued expansion in China and India led growth in emerging economies. Improving global demand allowed financial markets to largely shrug off potentially destabilizing events such as the Brexit referendum in the UK, the US presidential election, and dramatic currency reforms in India.

This is a sharp departure from 2015-16, when seemingly benign occurrences, such as weak manufacturing data from China, would send shudders through global capital markets. One such event in early 2016 caused oil prices to fall to a 20-year low in February 2016. As a result, West Texas Intermediate (WTI), the benchmark North American oil price, opened 2016-17 at US$35 per barrel, about 30% lower than at the open of 2015-16. These lows were short-lived, however, with WTI recovering above US$50/bbl by early June. Prices received further support in September when Organization of the Petroleum Exporting Countries (OPEC) and several other oil-exporting countries announced plans to cut production by 1.8 million barrels in the first half of 2017.

The improvement in oil prices led to an uptick in US oil and gas investment which, up to that point, had been a drag on US business investment. Consequently, for the first time in nearly a decade, the US economy was firing on all cylinders. The unemployment rate finally returned to pre-recession levels and there was a long anticipated acceleration in wages. Rising incomes and improved consumer confidence helped fuel consumer spending. Sales of automobiles and light trucks in 2016 were the highest on record. Improving economic conditions and robust price growth prompted the US Federal Reserve to hike short-term interest rates in December 2016 and again in March 2017.

The gradual monetary tightening pursued by the Federal Reserve put it on a different track than central banks in most other advanced economies. Any chance that the Bank of England (BoE) would raise interest rates was scuttled when UK voters voted to leave the European Union (EU) in June 2016. The BoE responded aggressively in August by cutting its key lending rate to a 322-year low of 0.25%, among other measures. This may have helped the UK economy avoid the recession that many believed would result from a vote to leave the EU. Uncertainty around Brexit ensured that the European Central Bank would maintain an accommodative monetary policy stance. The EU continued to see steady, if measured, economic growth over the last year. Even with the economic improvement, the unemployment rate was 9.5% as of March 2017 and a number of EU economies have yet to emerge from the long shadow of the 2008-09 global recession.

After wobbling early in 2016, China's economy regained its footing. Real GDP growth in China remained solid throughout the fiscal year, averaging just under 7%. India surpassed China in terms of economic growth in 2016. Nevertheless, a drastic decision late in 2016 by the central government to invalidate the 500 and 1,000 rupee notes put pressure on the pace of growth. Ostensibly aimed at curbing shadow economy activity, the demonetization disrupted cash transactions in a primarily currency-based economy.

As strengthening global growth took root equity markets responded in kind. The S&P 500 and TSX climbed 20.8% and 19.3% respectively in 2016-17 in Canadian dollar terms. International markets from Britain, Europe, Japan, India, Brazil and Russia followed suit on recovering oil prices and rising economic stability. Diverging monetary policy compared with the US and the disruption to oil exports resulting from the Fort McMurray wildfire caused the Canadian dollar to fall two cents during 2016-17, closing the year at 0.75 US$/C$.

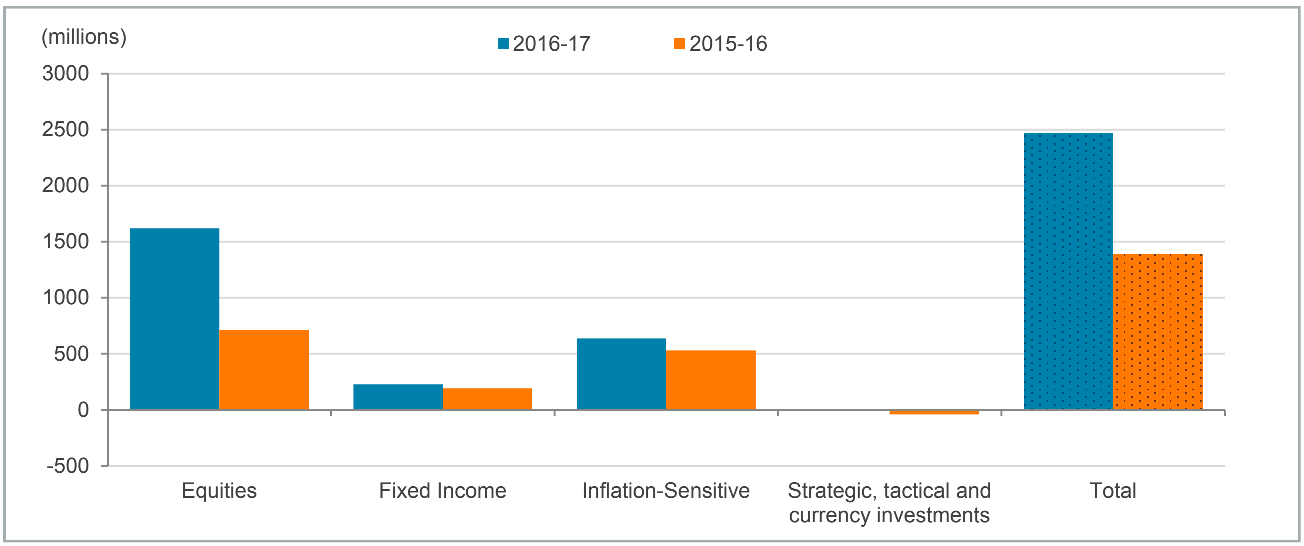
INVESTMENT INCOME

The Heritage Fund earned gross investment income for the fiscal year ending March 31, 2017 of $2,467 million. This is the largest income the Heritage Fund has ever produced, beating the $2,272 million earned in 2013-14 and surpassing last year's income of $1,388 million by $1,079 million. Investment expenses for the year were $134 million, resulting in net investment income of $2,333 million. The *Alberta Heritage Savings Trust Fund Act* requires the Fund be protected against inflation. The inflation proofing amount retained out of net income was $182 million, based on the Alberta Consumer Price Index increase of 1.2%.

Net income was substantially greater than what was projected in *Budget 2016* because of better-than-expected returns in equity markets and the sale of assets that had gains in previous quarters. *Budget 2016* projected net income of $1,055 million, which was $1,278 million less than what was actually earned.

The equity assets in the portfolio generated $1,619 million, which was almost two-thirds of the total income the portfolio earned during the year. The equity portfolio generated $909 million more income than it did during the previous year. The inflation-sensitive assets in the portfolio generated $636 million in income, which was $107 million more than the previous year. The fixed income portfolio generated $226 million, which was $35 million more than the previous year. Strategic, tactical and currency investments lost $14 million during the year, which was less of a loss than the $42 million those assets lost the previous year.

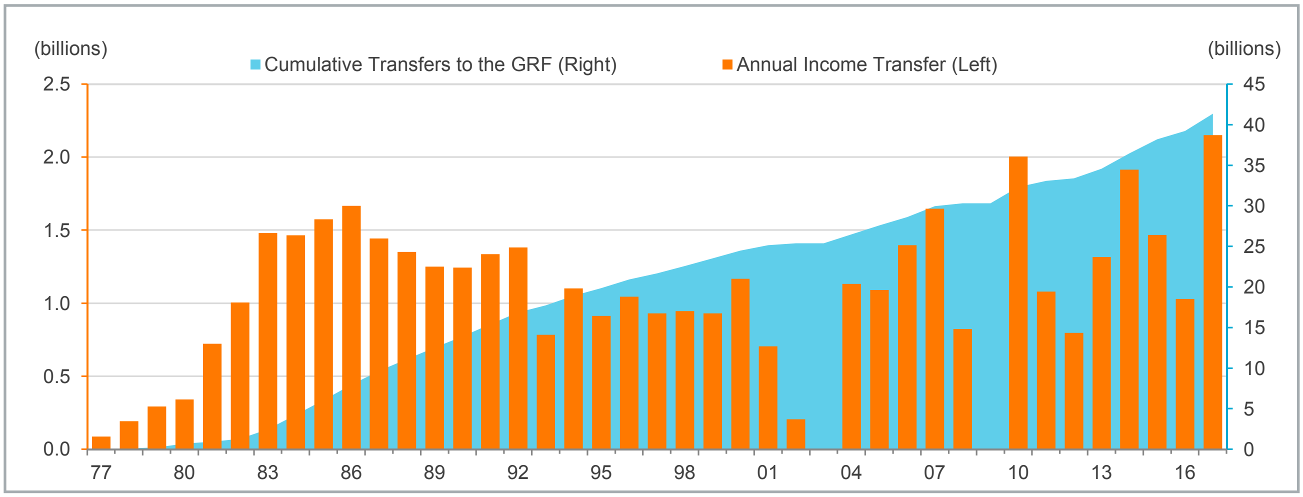
Investment Income by Asset Class



INCOME TRANSFER AND INFLATION-PROOFING

Established in 1976, the Heritage Fund has earned $40.8 billion in accumulated net income, of which $3.3 billion has been retained for inflation proofing. Income transfers to the General Revenue Fund commenced in 1982-83, with $37.6 billion transferred to support government programs and projects. An additional $3.5 billion was transferred between 1976 and 1995 to pay for capital projects and seed other endowments in Alberta. Overall, the Heritage Fund has contributed $41.4 billion to the benefit of Albertans.

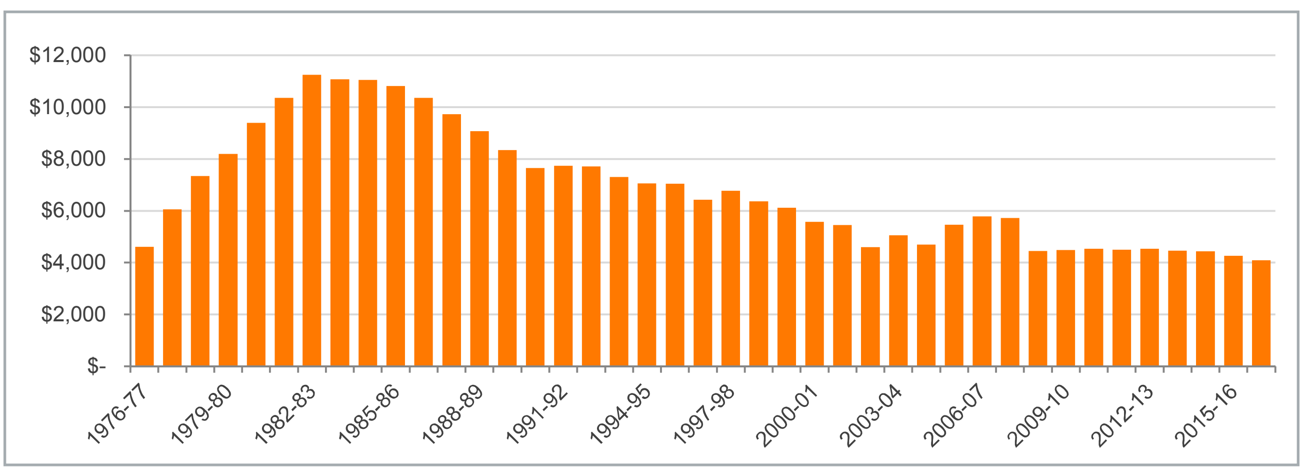
Income and Cumulative Transfer to GRF



Cumulative inflation since the Fund's inception in 1976 has caused prices to increase more than four times. The chart below illustrates inflation and population growth deteriorating the fund over time. The market value per capita reached its peak, in real dollars, in 1983 when the fund was worth $11,247 per Albertan. It now stands at $4,084 per Albertan. There are three factors that have led to the decrease over the years. In 1983, deposits into the fund from natural resource revenues were stopped and income from the fund was transferred to the Province. Although inflation proofing since 2005 has somewhat stabilized the per capita value of the fund, the population of the Province has grown by 130% since 1976.

Market Value Inflation Adjusted Per Capita

(2017 dollars)



INVESTMENT EXPENSES

The Heritage Fund's investment expenses were $134 million for the year ended March 31, 2017, $16 million less than the previous year. The expenses for the year were $4 million more than projected in *Budget 2016*. The Fund performed better-than-expected in 2016-17, but the projected expense in the budget does not include performance based fees which are volatile and difficult to forecast. Overall, fees have stabilized as the Fund's policy asset mix has approached full implementation. Investment expenses in 2016–17 were 0.74% of the average fair value of investments compared to 0.84% during the previous year.

Investment Expenses

(millions)	2017	2016
Total Investment expenses	$134	$150
Average Fair Value of Investments	$18,040	$17,962
Per cent of investments at average fair value	0.74%	0.84%

ASSET MIX

The Heritage Fund's asset mix has not been strategically changed over the past year.

Inflation-sensitive and alternatives have increased 0.4% from 33.4% to 33.8%. Growth from infrastructure investments increased from 7.6% to 9.1%. The real estate allocation had a slight decrease, while timberland saw a small increase.

Fixed income had a small decrease during the year in its allocation, which were taken up by the small increase in inflation-sensitive and alternatives, and the increase in equity allocation. Equity increased from 46.8% to 47.2%.

Strategic opportunities, investments that do not fit directly into any of the asset classes, remained unchanged at 1.1% of assets.

Asset Mix (Long-term Target Asset Mix)

	March 2017	March 2016	Policy Range
Fixed Income and Money Market (20%)	**17.9%**	**18.7%**	**15-45%**
Deposits and short-term	0.6%	0.5%	0-25%
Bonds and mortgages	17.3%	18.2%	10-35%
Inflation-Sensitive and Alternative Investments (30%)	**33.8%**	**33.4%**	**15-40%**
Real estate	22.1%	23.4%	10-20%
Infrastructure	9.1%	7.6%	5-15%
Timberland	2.6%	2.4%	0-5%
Equities (50%)	**47.2%**	**46.8%**	**35-70%**
Canadian	9.0%	8.8%	5-15%
Global developed	27.7%	27.1%	20-65%
Emerging markets	3.8%	3.0%	0-10%
Private	6.7%	7.9%	0-10%
Strategic Opportunities	**1.1%**	**1.1%**	**0-5%**
Alberta Growth Mandate*	0.3%	-	3%

* Not included in total, investments are included in their respective asset classes.

INVESTMENT PERFORMANCE

The *Alberta Heritage Savings Trust Fund Act* states that the "investments of Heritage Fund assets must be made with the objective of maximizing long term financial returns." The Fund's long term target return, as stated in the SIP&G, is CPI plus 4.5%. Over a five-year period ending March 31, 2017, the Fund returned 11.0% on an annualized basis, which is higher than the return on the policy benchmark of 10.1%. Over the last five-year period, the CPI plus 4.5 target was 5.9%, which the Fund has beaten. Over a 10-year horizon, the Fund has returned 6.8% versus a policy benchmark return of 6.4%.

The Heritage Fund net of fees return was 10.7% during the 2016-17 fiscal year, while the policy benchmark return was 10.1%. The asset classes that added the most value were global equity, timberlands and infrastructure.

Total Fund Performance

	2016-17	2015-16	5 Year	10 Year
Fund Rate of Return	10.7	4.7	11.0	6.8
Benchmark	10.1	0.4	10.1	6.4
Active Management	0.6	4.3	0.9	0.4
Long Term Return Target - CPI + 4.5	6.5	5.9	5.9	6.1
Active management target	1.0	1.0	1.0	1.0
Total Target Return	7.5	6.9	7.0	7.1

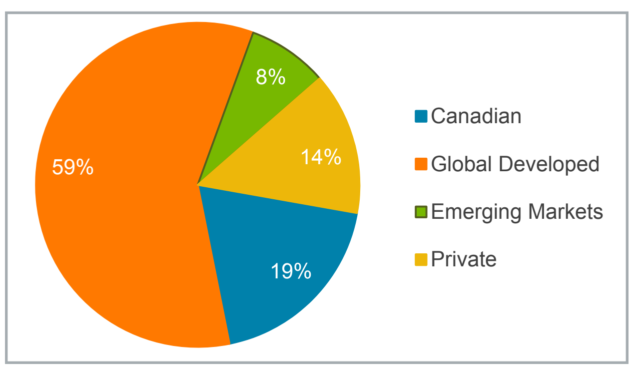
Asset Class Return versus Benchmark

	1 Year Return	1 Year Benchmark	5 Year Return	5 Year Benchmark
Fixed Income	3.0	1.5	5.3	3.5
Inflation Sensitive and Alternative Investments	6.0	5.7	9.4	8.5
Real Estate	4.7	5.6	9.8	8.7
Infrastructure	7.6	5.9	9.0	7.6
Timberland	12.7	5.9	7.8	7.6
Equities	17.5	17.1	14.0	13.8
Canadian	17.0	18.6	9.1	7.8
Global	22.4	18.6	16.1	14.8
Private	(1.5)	7.9	7.8	14.6

EQUITIES

The Fund invests in equities to provide long-term investment growth and income. The equity portfolio is a combination of Canadian, global, and private assets. The Fund had $8.7 billion or 47.2% of its assets in equity investments as at March 31, 2017. This is higher than the previous year's holdings of $8.4 billion or 46.8%. The equities portfolio returned 17.5% for the year ended March 31, 2017. The equity benchmark had a return of 17.1%. Looking at the five-year performance of the equity portfolio it has returned 14.0% per year, beating the equity benchmark by 0.2%.

Equities



Canadian Equity

The S&P/TSX Composite Index returned 18.6% for the year. The Canadian stock market is heavily weighted in three main sectors: financial, energy and materials sectors. These three sectors constitute nearly two-thirds of the index. Canadian markets were strengthened by returns in the energy sector of 16.2%, as crude oil rebounded from multi-year lows in early 2016. The financial and materials sectors performed well, posting 23.8% and 23.5% returns respectively. The Heritage Fund had $1.7 billion invested in Canadian equity, which was up slightly from the previous year. The Fund's Canadian equities portfolio assets returned 17.0% for the year, which was below its benchmark by 1.6%. Over the past five years the Canadian equity portfolio has returned 9.1% per year, while its benchmark has returned 7.8%.

Global Equities

The Fund's global equity portfolio returned 22.4% for the fiscal year, compared to benchmark return, which was 18.6%. At year end, global equities totalled $5.8 billion, up from $5.4 billion in the previous year. Global equity markets have had excellent returns since the U.S. general election in November of 2016.

The long-term performance of the global equity portfolio has been very good. During the last five years, the global equity portfolio has returned 16.1% per annum. Over the same time period, the benchmark has returned 14.8% per annum.

Approximately half of the global equity holdings are invested in the U.S. and half in Europe, Australasia, and the Far East. A portion of global equities is invested in structured equity products using index swaps and futures contracts that replicate exposure to global equity markets. Emerging market public equities make up 3.8% of the total portfolio up from 2.9% the previous year. Emerging markets can be defined as economies that are in the early stages of development, have sufficient market size and liquidity, and have an investment climate that is receptive to foreign investors.

Top 10 Canadian Public Equity Holdings

Ending March 31, 2017

Holding	(%)	$ in Millions
Royal Bank of Canada	6.2%	$102.4
Toronto Dominion Bank	5.6%	$92.1
Bank of Nova Scotia	4.4%	$73.0
Enbridge Inc.	3.9%	$63.4
Canadian National Railway Co.	3.6%	$58.7
Suncor Energy Inc.	3.3%	$53.6
Bank of Montreal	2.9%	$47.7
Canadian Natural Resources Ltd.	2.5%	$41.8
Transcanada Corp.	2.5%	$41.0
CIBC	2.5%	$40.9
Total - Top 10 Holdings	37.4%	$614.6

Top 10 Global Public Equity Holdings

Ending March 31, 2017

Name	Weight (%)	$ in Millions
Apple Inc.	2.0%	$93.9
Microsoft Corp.	1.6%	$72.6
Alphabet Inc.	1.5%	$67.8
Facebook Inc.	1.2%	$54.9
JPMorgan Chase & Co.	1.0%	$47.2
Johnson & Johnson	1.0%	$46.8
Amazon Com Inc.	1.0%	$46.2
Exxon Mobil Corp	0.9%	$43.7
Berkshire Hathaway [B]	0.8%	$38.8
Bank Of America Corporation	0.8%	$34.9
Total - Top 10 Holdings	11.8%	$546.8

Private Equity

Private equity investment was $1.2 billion at year end, down from $1.4 billion at the end of the previous year. The private equity portfolio is made up of a variety of domestic and foreign investments that primarily include buyout investments such as expansion capital, acquisition financings, management buyouts, family succession, turnaround financings, project financings and leverage reductions. The private equity portfolio had a negative 1.5% return for the fiscal year. The benchmark for the fiscal year returned 7.9%. The private equity portfolio over the past five years has produced an annualized return of 7.8%. Even with the respectable returns experienced by the portfolio, it still trailed the benchmark for private equity, which annually returned 14.6%.

FIXED INCOME

The fixed income investments in the Fund provide a safe and steady source of income for current funding priorities. Fixed income investments tend to offer lower risk and lower volatility than other investments and help to stabilize the portfolio returns. As at March 31, 2017, the Fund had $3.3 billion or 17.9% invested in the fixed income portfolio, which was $78 million less than the previous year. The fixed income in the portfolio is primarily held in federal, provincial, municipal and corporate bonds. The Fund also has investments in private mortgages and private debt. During the year, overall fixed income portfolio earned 3.0%, 1.5% more than the benchmark of 1.5%. The portfolio had cash or money market position of $103 million at the end of the year, up from $97 million the previous year.

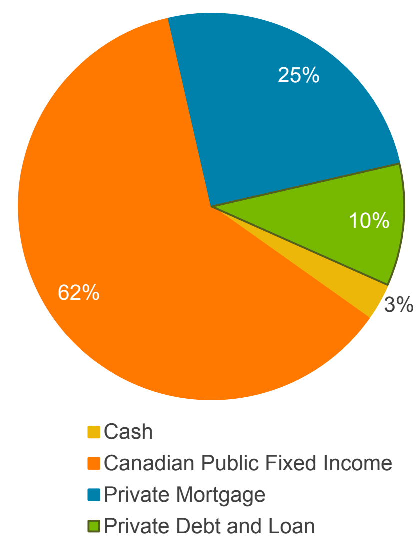
The fixed income portfolio has returned 5.3% per year for the last five years. Over the same time period the benchmark for the fixed income portfolio, the FTSE/TMX Universe Bond Index has returned 3.5% per year.

Private Equity Program Top 10 Holdings

As at March 31, 2017

Name	Sector
Vue Entertainment	Consumer Discretionary
ERM	Business Services
Milacron	Industrials
Ladder Capital	Financials
New Mountain Partners IV	Fund
CCMP III	Fund
Lion Capital III	Fund
Alegeus Technologies	Health Care
Schustermann & Borenstein (Prestige)	Consumer Discretionary
Sterling IV	Fund

Fixed Income



Bonds

The public fixed income portfolio comprises high quality government, corporate bonds and cash investments. The main bond portfolio, which is measured against the FTSE/TMX Universe Bond Index, was valued at $2.0 billion at year end, the same as at the end of the previous year. The bond portfolio returned 3.6% for the year, beating the benchmark return of 1.5%. The portfolio has an overweight position in high-quality, short-term corporate credit that performed well during the year. The Heritage Fund's bond portfolio has returned an annualized 5.2% over the last five years, beating the annualized benchmark return of 3.5%.

Private Mortgages

The private mortgage investments are diversified geographically and by property type. The Fund's private mortgage investments are meant to augment the fixed income portfolio by offering a diversified source of yield enhancement. The Fund had investments of $819 million at year end, a decrease of $53 million from the previous year's value. The private mortgage investments returned 1.8%, which was 0.3% more than the benchmark return. Over the past five years, the annualized return for the private mortgage portfolio was 4.7%, beating the benchmark return of 3.5%.

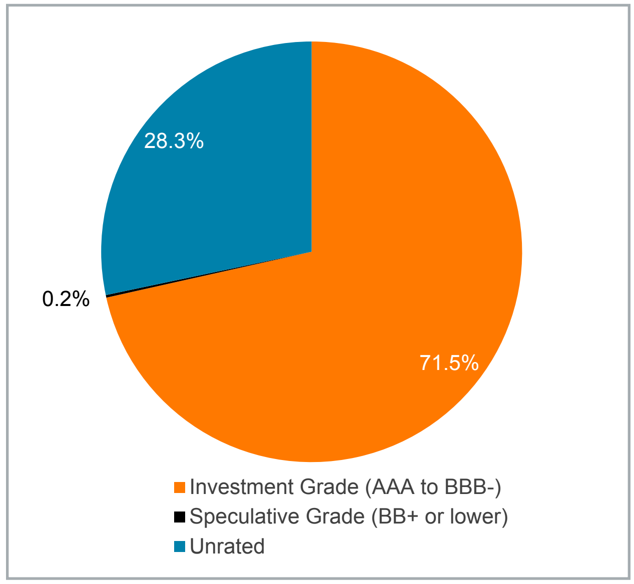
Private Debt and Loan

The Heritage Fund held $335 million of the private debt and loan assets as at March 31, 2017. The return for private debt and loan for the year was 3.8%. Private debt and loan consists of specialty loans and financing for corporations that don't meet the requirements of traditional financing structures. The private debt and loan portfolio has only existed for three years, but the annualized return for those three years is 5.6%, which beats the annualized benchmark return of 4.1%.

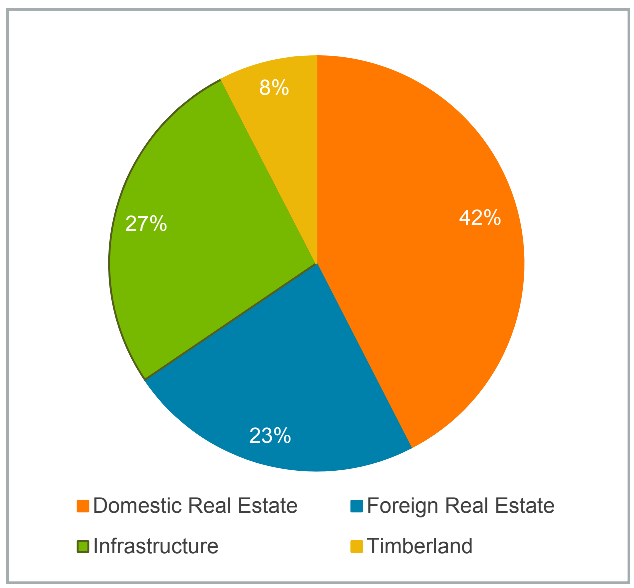
INFLATION-SENSITIVE AND ALTERNATIVE INVESTMENTS

Inflation-sensitive investments help to protect the Heritage Fund's value against the effects of inflation. The higher correlation between these assets and inflation ensures the purchasing power of the Fund will remain the same in the future as it is today. Nearly two-thirds of the investments in this asset class are invested in real estate.

Ratings



Inflation-Sensitive



As of March 31, 2017, the inflation sensitive investments made up 33.8% of the total investments, up from 33.4% in the previous year. The long term policy target weight of these assets is 30%.

Total inflation sensitive investments are $6.2 billion, an increase of $188 million over the previous year. The increase includes some gains in the value of investments made in previous years and additional investments made during 2016-17. The overall combined return for inflation sensitive and alternative investments was 6.0%, 0.3 percentage points greater than the benchmark's return of 5.7%. The inflation sensitive and alternatives portfolio has returned 9.4% per year over the last five years, while the benchmark for the asset class had a return of 8.5% per year.

Real Estate

At year end, the Heritage Fund's investment in real estate was $4.1 billion, down from $4.2 billion at the end of the previous year. Real estate holdings were predominantly Canadian with $2.6 billion invested, which is 65% of the real estate portfolio. The portfolio's foreign real estate has $1.4 billion invested, down from $1.6 billion at the end of the previous year. Real estate returned 4.7% for the year. The return fell short of the benchmark, which returned 5.6%. Over the past five years the real estate portfolio has returned a very strong annualized 9.8%, out pacing the benchmark return of 8.7%.

Top 10 Domestic Real Estate

Ending March 31, 2017

Property	Sector	City
Yorkdale Shopping Centre	Retail	Toronto
Square One Shopping Centre	Retail	Mississauga
Scarborough Town Centre	Retail	Toronto
Eighth Avenue Place	Office	Calgary
TD Square	Office	Calgary
Bow Valley Square	Office	Calgary
5th Avenue Place	Office	Calgary
TD Canada Trust Tower	Office	Calgary
Scotia Plaza	Office	Toronto
Sunlife Financial Centre	Office	Ottawa
Total - Top 10 Holdings	**$1,514.0 (millions)**	

Top 10 Foreign Real Estate

Ending March 31, 2017

Property	Sector	Region
EVOQ Los Angeles	Office	USA
Brookfield Fund I-A	Foreign Fund	USA
M25 Causeway Parks	Office	London
Whitewood TV City	Residential	London
Leadenhall Triangle	Office	London
Meyer Homes UK	Residential	London
Starrett-Lehigh	Office	New York
Meyer Bergman Fund II	Foreign Fund	Europe
Barnhart AM Mexico Fund I	Foreign Fund	Mexico
620 Avenue of the Americas	Office	New York
Total - Top 10 Holdings	**$591.0 (millions)**	

Timberlands

Investments in Canadian and foreign timberland totalled $469 million, up $32 million from the previous year. One-quarter of the timberland portfolio is in Canada, and the remaining three-quarters of the timberland investments are primarily in Australia and US. The timberland portfolio returned 12.7% versus its benchmark return of 5.9%. Over the last five years, the timberland portfolio has returned an annualized 7.8%, which beat its benchmark's return of 7.6% per annum.

Timberlands Program Holdings

Ending March 31, 2017

Holding	Geography
Forestry Investment Trust	Australia
Island Timberlands LP	Vancouver Island, BC, Canada
Australia New Zealand Forest Fund	Australia and New Zealand
Global Timber Investors 8	Australia, New Zealand, and Latin America
ORM Timber Fund IV LLC	United States

Infrastructure

Infrastructure investments provide attractive returns plus inflation sensitivity with a long investment horizon. The Fund's infrastructure investments totaled $1.7 billion at year end and were up from the previous year. Infrastructure projects include transportation/logistics (e.g., toll roads, airports, ports, and rail); power/ energy (e.g., contracted power generation, power transmission and pipelines); and utilities (e.g., water, waste water, natural gas networks). Infrastructure returned 7.6% compared to its benchmark return of 5.9%. Over the past five years, the infrastructure assets have returned 9.0% per annum, while the benchmark has returned 7.6% per annum.

Private Infrastructure Program Top 10 Holdings

As at March 31, 2017

Company	Sector	Geography
Howard Midstream Energy	Pipelines & Midstream	United States
London City Airport	Transportation	United Kingdom
Porterbrook	Transportation	United Kingdom
SAESA Group	Integrated Utilities	Chile
Puget Energy Inc.	Integrated Utilities	United States
Frequency	Telecommunications	Australia / UK
Thames Water	Water	United Kingdom
TransAlta Renewables	Renewable Energy	Canada
Compania Logistica de Hidrocarburos	Pipelines & Midstream	Europe
Desri Financing 3, L.L.C.	Renewable Energy	United States
Total Top 10 Holdings	**$1384.3 (millions)**	

CURRENCY EXPOSURE

The Fund invests in a globally diversified portfolio, but most of the assets remain denominated in Canadian dollars. Fund assets denominated in Canadian dollars amounted to 68.6% of the Fund at March 31, 2017. This is down from the previous year, when the Fund had 69.7% invested in Canadian dollar denominated assets. The remainder of the assets are allocated globally in over 30 other currencies, the main ones being the U.S. dollar, Euro, Japanese yen, and British pound. The Fund's largest foreign currency exposure is $3.1 billion invested in the U.S. dollar assets.

ALBERTA EXPOSURE

The Alberta Heritage Savings Trust Fund did not have a clear mandate to invest directly into the Alberta market until Budget 2015. Still, prior to this mandate, AIMCo, during normal operations on behalf of the Fund, has invested in companies and assets headquartered or located in Alberta. The Fund has $1.7 billion invested in Alberta, the largest portion of which is in real estate, which has just under $900 million invested in various properties located in Alberta. This is followed by $507 million invested in publicly traded companies headquartered in the province. The amounts do not include businesses that are headquartered elsewhere, but have significant economic exposure to the Alberta economy.

Currency Exposure

As at March 31, 2017

	2017	2016
Canadian Dollar	68.6%	69.7%
US Dollar	16.7%	15.7%
Euro	3.4%	3.4%
Japanese Yen	2.3%	2.3%
British Pound	1.7%	1.9%
Other	7.3%	7.0%
Total	**100.0%**	**100.0%**

Alberta Exposure

As at March 31, 2017

Asset Class	Market Value (Millions)
Real Estate	$887.6
Equity	$507.5
Fixed Income	$182.2
Mortgages	$120.0
Private Equity	$49.8
Total	**$1,747.2**

Top 10 Alberta Public Equity Holdings

As at March 31, 2017

Top 10 Alberta Public Equity Holdings	Market Value (Millions)
TransAlta Renewables Inc*	$73.3
Canadian Natural Resources Ltd	$50.6
Suncor Energy Inc	$50.0
TransCanada Corp	$37.8
Enbridge Inc	$36.6
Cenovus Energy Inc	$18.3
Inter Pipeline Ltd	$15.0
Atco Ltd/Canada	$13.5
Keyera Corp	$10.6
Imperial Oil Ltd	$10.5
Total	**$316.1**

* Alberta Growth Mandate

HISTORICAL SUMMARY OF OPERATIONS

May 19, 1976 to March 31, 2017

(See Note 5 to the Financial Statements)
(in $millions)

Fiscal Year	Net Income (Loss)[a]	TRANSFERS TO THE FUND			TRANSFERS FROM THE FUND			Fund Equity (at cost)
		Resource Revenue Allocation	Deposits	Advanced Education Endowment[b]	Investment Income Transfers[c]	Capital Project Expenditures	Other Transfers	
1976-77	88	2,120	-	-	-	(36)	-	2,172
1977-78	194	931	-	-	-	(87)	-	3,210
1978-79	294	1,059	-	-	-	(132)	-	4,431
1979-80	343	1,332	-	-	-	(478)	-	5,628
1980-81	724	1,445	-	-	-	(227)	-	7,570
1981-82	1,007	1,434	-	-	-	(349)	-	9,662
1982-83	1,482	1,370	-	-	(867)	(296)	-	11,351
1983-84	1,467	720	-	-	(1,469)	(330)	-	11,739
1984-85	1,575	736	-	-	(1,575)	(228)	-	12,247
1985-86	1,667	685	-	-	(1,667)	(240)	-	12,692
1986-87	1,445	217	-	-	(1,445)	(227)	-	12,682
1987-88	1,353	-	-	-	(1,353)	(129)	-	12,553
1988-89	1,252	-	-	-	(1,252)	(155)	-	12,398
1989-90	1,244	-	-	-	(1,244)	(134)	-	12,264
1990-91	1,337	-	-	-	(1,337)	(150)	-	12,114
1991-92	1,382	-	-	-	(1,382)	(84)	-	12,030
1992-93	785	-	-	-	(785)	(84)	-	11,946
1993-94	1,103	-	-	-	(1,103)	(71)	-	11,875
1994-95	914	-	-	-	(914)	(49)	-	11,826
1995-96[e]	1,046	-	-	-	(1,046)	-	-	11,826
1996-97	932	-	-	-	(756)d	-	-	12,002
1997-98	947	-	-	-	(922)d	-	-	12,027
1998-99	932	-	-	-	(932)	-	-	12,027
1999-00	1,169	-	-	-	(939)d	-	-	12,257
2000-01	706	-	-	-	(706)	-	-	12,257
2001-02	206	-	-	-	(206)	-	-	12,257
2002-03	(894)	-	-	-	-	-	-	11,363
2003-04	1,133	-	-	-	(1,133)	-	-	11,363
2004-05	1,092	-	-	-	(1,092)	-	-	11,363
2005-06	1,397	-	1,000	750	(1015)d	-	-	13,495
2006-07	1,648	-	1,000	250	(1365)d	-	-	15,028
2007-08	824	-	918	-	(358)d	-	-	16,412
2008-09	(2,574)	-	-	-	-	-	-	13,838
2009-10	2,006	-	-	-	(2,006)	-	-	13,838
2010-11	1,080	-	-	-	(720)d	-	-	14,198
2011-12	798	-	-	-	(344)d	-	-	14,652
2012-13	1,316	-	-	-	(1155)d	-	-	14,813
2013-14	2,109	-	-	-	(1916)d	-	-	15,006
2014-15	1,678	-	-	-	(1468)d	-	(255)	14,961
2015-16	1,238	-	-	-	(1029)d	-	-	15,170
2016-17	2,333	-	-	-	(2151)d	-	-	15,352
TOTAL	40,778	12,049	2,918	1,000	(37,652)	(3,486)	(255)	15,352

a The net income of the Fund and its assets and liabilities, net of consolidation adjustments, is included in the consolidated financial statements of the Ministry of Treasury Board and Finance and the Government of Alberta.

b The *Access to the Future Act* allows for a maximum of $3 billion to be transferred into the Fund to support the advanced education endowment.

c In accordance with section 8(2) of the *Alberta Heritage Savings Trust Fund Act*, the net income of the Fund, less any amount retained in the Fund to maintain its value from inflation, shall be transferred to the GRF, annually in a manner determined by the Minister of Finance.

d At March 31, 2017 the accumulated amount retained in the Fund for inflation-proofing was $3,331 million (2016: $3,149 million).

e March 31, 1996 marked the end of the old structure of the Heritage Fund. In 1996-97, the Fund commenced a structuring process under a new framework. The new framework provided for a transition into more market based investments, inflation proofing the Fund and a long-term investment horizon providing for the greatest financial returns on investments.

MARCH 31, 2017 FINANCIAL STATEMENTS

Alberta Heritage Savings Trust Fund

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Independent Auditor's Report

To the President of Treasury Board and Minister of Finance

Report on the Financial Statements

I have audited the accompanying financial statements of the Alberta Heritage Savings Trust Fund, which comprise the statement of financial position as at March 31, 2017, and the statements of operations and accumulated surplus, remeasurement gains and losses, change in net financial assets, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Alberta Heritage Savings Trust Fund as at March 31, 2017, and the results of its operations, its remeasurement gains and losses, its changes in net financial assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[Original signed by Merwan N. Saher FCPA, FCA]

Auditor General

June 7, 2017

Edmonton, Alberta

Statement of Financial Position

As at March 31, 2017

(in millions)

	2017	2016
Financial assets		
Investments (Note 3)	$ 18,334	$ 17,975
Liabilities		
Due to the General Revenue Fund	851	229
Net Financial Assets	$ 17,483	$ 17,746
Net financial assets (Note 5)		
Accumulated operating surplus	$ 15,352	$ 15,170
Accumulated remeasurement gains	2,131	2,576
	$ 17,483	$ 17,746

Statement of Change in Net Financial Assets

Year Ended March 31, 2017

(in millions)

	2017		2016
	Budget	Actual	Actual
Net surplus retained in the Fund	$ 243	$ 182	$ 209
Net remeasurement losses		(445)	(411)
Decrease in net financial assets		**(263)**	**(202)**
Net financial assets, beginning of year		17,746	17,948
Net financial assets, end of year		$ 17,483	$ 17,746

The accompanying notes are part of these financial statements.

Statement of Operations and Accumulated Surplus

Year Ended March 31, 2017

(in millions)

	2017		2016
	Budget	Actual	Actual
Investment income (Note 7)	$ 1,185	$ 2,467	$ 1,388
Investment expenses (Note 8)	(130)	(134)	(150)
Net income from operations	1,055	2,333	1,238
Transfers to the General Revenue Fund (Note 5b)	(812)	(2,151)	(1,029)
Net surplus retained in the Fund (Note 5b)	**$ 243**	**182**	**209**
Accumulated operating surplus, beginning of year		15,170	14,961
Accumulated operating surplus, end of year		$ 15,352	$ 15,170

Statement of Remeasurement Gains and Losses

Year Ended March 31, 2017

(in millions)

	2017	2016
Unrealized gain (loss) on investments	$ 157	$ (223)
Less: Amounts reclassified to the Statement of Operations - realized gains on investments	(602)	(188)
Net remeasurement losses	**(445)**	**(411)**
Accumulated remeasurement gains, beginning of year	2,576	2,987
Accumulated remeasurement gains, end of year	$ 2,131	$ 2,576

The accompanying notes are part of these financial statements.

Statement of Cash Flows

Year Ended March 31, 2017

(in millions)

	2017	2016
Operating transactions		
Net income from operations	$ 2,333	$ 1,238
Non-cash items included in net income	(602)	(188)
Cash provided by operating transactions	1,731	1,050
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	5,236	4,251
Purchase of investments	(5,432)	(4,082)
Cash (used in) provided by investing transactions	(196)	169
Transfers		
Transfers to the General Revenue Fund	(2,151)	(1,029)
Increase (decrease) in amounts due to the General Revenue Fund	622	(142)
Cash used in transfers	(1,529)	(1,171)
Increase in cash	6	48
Cash at beginning of year	97	49
Cash at end of year	$ 103	$ 97
Consisting of Deposits in the Consolidated Cash Investment Trust Fund (CCITF) *	$ 103	$ 97

* The CCITF is a highly-liquid, short-term money market pooled fund consisting primarily (97%) of securities with maturities of less than one year.

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

March 31, 2017

(All dollar values in millions, unless otherwise stated)

NOTE 1 AUTHORITY AND MISSION

The Alberta Heritage Savings Trust Fund (the Fund) operates under the authority of the *Alberta Heritage Savings Trust Fund Act*, Chapter A-23, Revised Statutes of Alberta 2000 (the Act), as amended.

The preamble to the Act describes the mission of the Fund as follows:

"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."

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

The financial statements are prepared in accordance with Canadian public sector accounting standards. The net financial asset model is presented in the financial statements. Net financial assets are measured as the difference between the Fund's financial assets and liabilities as described in the statement of financial position.

The accounting policies of significance to the Fund are as follows:

a) VALUATION OF INVESTMENTS

Investments are recorded at fair value. As disclosed in Note 3, the Fund's investments consist primarily of direct ownership in units of pooled investment funds ("the pools"). The pools are established by Ministerial Order 16/2014, being the Establishment and Maintenance of Pooled Funds, pursuant to the *Financial Administration Act* of Alberta, Chapter F-12, Section 45, and the *Alberta Investment Management Corporation Act* of Alberta, Chapter A-26.5, Section 15 and 20. Participants in pools include government and non-government funds and plans.

Contracts to buy and sell financial instruments in the pools are between the Province of Alberta and the third party to the contracts. Participants in the pools are not party to the contracts and have no control over the management of the pool and the selection of securities in the pool. Alberta Investment Management Corporation (AIMCo) controls the creation of the pools and the management and administration of the pools including security selection. Accordingly, the Fund does not report the financial instruments of the pools on its statement of financial position.

The Fund becomes exposed to the financial risks and rewards associated with the underlying financial instruments in a pool when it purchases units issued by the pools and divests its exposure to those financial risks and rewards when it sells its pool units. The Fund reports its share of the financial risks in Note 4.

The fair value of pool units held directly by the Fund is derived from the fair value of the underlying financial instruments held by the pools as determined by AIMCo (see Note 3b). Investments in pool units are recorded in the Fund's accounts. The underlying financial instruments are recorded in the accounts of the pools. The pools have a market-based unit value that is used to distribute income to the pool participants and to value purchases and sales of the pool units. The pools include various financial instruments such as bonds, equities, real estate, derivatives, investment receivables and payables and cash.

The Fund's cut-off policy for valuation of investments, investment income and investment performance is based on valuations confirmed by AIMCo on the fourth business day following the year end. Differences in valuation estimates provided to Treasury Board and Finance after the year end cut-off date are reviewed by management. Differences considered immaterial by management are included in investments and remeasurement gains or losses in the following period.

Investments in units of the pools are managed and evaluated on a fair value basis. As such, all investments are designated and recorded in the financial statements at fair value.

Investments in pool units are recorded in the Fund's accounts on a trade date basis.

All purchases and sales of the pool units are in Canadian dollars.

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

b) INVESTMENT INCOME

i) Income distributions from the pools are recorded in the Fund's accounts and included in investment income on the statement of operations and accumulated surplus (see Note 7). Income distributions are based on the Fund's pro-rata share of total units issued by the pools.

ii) Realized gains and losses on disposal of pool units are recorded in the Fund's accounts and included in income on the statement of operations and accumulated surplus. Realized gains and losses on disposal of pool units are determined on an average cost basis.

iii) Investment income is recorded on an accrual basis. Investment income is accrued when there is reasonable assurance as to its measurement and collectability.

c) INVESTMENT EXPENSES

i) Investment expenses include all amounts incurred by the Fund to earn investment income (see Note 8). Investment expenses are recorded on an accrual basis. Transaction costs are expensed as they are incurred.

ii) Other expenses related to the direct administration of the Fund are charged to the Fund on an accrual basis.

d) REMEASUREMENT GAINS AND LOSSES

Accumulated remeasurement gains primarily represent the excess of the fair value of the pool units at year end over the cost of the pool units. Changes in accumulated remeasurement gains and losses are recognized in the statement of remeasurement gains and losses. Changes in accumulated remeasurement gains and losses during the year include unrealized increases and decreases in fair value of the pool units and realized gains and losses on sale of the pool units. When the pool units are sold (derecognized), any accumulated unrealized gain or loss associated with the investment becomes realized and is included in net income on the statement of operations and accumulated surplus.

e) MEASUREMENT UNCERTAINTY

Measurement uncertainty exists in the fair values reported for certain investments such as private equities, infrastructure, private debt and loans, private real estate, hedge funds, timberland investments, and other investments where no readily available market prices exist. The fair values of these investments are based on estimates. Estimated fair values may not reflect amounts that could be recognized upon immediate sale, or amounts that ultimately may be recognized. Accordingly, the estimated fair values may differ significantly from the value that would have been used had readily available market prices existed for these investments.

f) TRANSFERS TO THE GENERAL REVENUE FUND (GRF)

Transfers to the GRF are recorded on an accrual basis. In accordance with Section 8 of the Act, all of the net income of the Fund is transferred to the GRF except for any amount retained in the Fund to maintain its value against inflation (see Note 5 (b)).

g) FUTURE CHANGES IN ACCOUNTING POLICY

The Public Sector Accounting Board issued the following accounting standards:

- **PS 2200 Related Party Disclosures and PS 3420 Inter-Entity Transactions (effective April 1, 2017)**

  PS 2200 defines a related party and establishes disclosures required for related party transactions; PS 3420 establishes standards on how to account for and report transactions between public sector entities that comprise a government's reporting entity from both a provider and recipient perspective.

- **PS 3210 Assets, PS 3320 Contingent Assets, and PS 3380 Contractual Rights (effective April 1, 2017)**

  PS 3210 provides guidance for applying the definition of assets set out in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, and establishes general disclosure standards for assets; PS 3320 defines and establishes disclosure standards on contingent assets; PS 3380 defines and establishes disclosure standards on contractual rights.

- **PS 3430 Restructuring Transactions (effective April 1, 2018)**

  This standard provides guidance on how to account for and report restructuring transactions by both transferors and recipients of assets and/or liabilities, together with related program or operating responsibilities.

Management is currently assessing the impact of these standards on the financial statements.

NOTE 3 INVESTMENTS (in millions)

The carrying amounts of the Fund's investments are recorded on a fair value basis. The Fund's investments are managed at the asset class level for purposes of evaluating the Fund's risk exposure and investment performance against approved benchmarks based on fair value. AIMCo invests the Fund's assets in accordance with the Statement of Investment Policies and Goals (SIP&G) approved by the President of Treasury Board, Minister of Finance. The fair value of the pool units is based on the Fund's share of the net asset value of the pooled fund. The pools have a market based unit value that is used to allocate income to participants of the pool and to value purchases and sales of the pool units. AIMCo is delegated authority to independently purchase and sell securities in the pools and Fund, and units of the pools, within the ranges approved for each asset class (see Note 4).

Asset class	Fair Value Hierarchy (a) Level 1	Level 2	Level 3	2017	2016
Interest-bearing securities					
Deposits in CCITF	$ -	$ 103	$ -	$ 103	$ 97
Bonds, mortgages and private debt	-	2,018	1,154	3,172	3,256
	-	2,121	1,154	3,275	3,353
Equities					
Canadian	1,253	101	299	1,653	1,579
Global developed	3,352	495	1,239	5,086	4,879
Emerging markets	539	26	129	694	530
Private	-	-	1,229	1,229	1,426
	5,144	622	2,896	8,662	8,414
Inflation sensitive					
Real estate	-	-	4,055	4,055	4,205
Infrastructure	-	-	1,666	1,666	1,360
Timberland	-	-	469	469	437
	-	-	6,190	6,190	6,002
Strategic, tactical and currency investments [1]	-	21	186	207	206
Total Fair Value of Investments	$ 5,144	$ 2,764	$10,426	$ 18,334	$ 17,975

[1] This asset class is not listed separately in the SIP&G as it relates to strategic investments and currency overlays made on an opportunistic and discretionary basis (see Note 4).

a) Fair Value Hierarchy: The quality and reliability of information used to estimate the fair value of investments is classified according to the following fair value hierarchy with level 1 being the highest quality and reliability.

- ***Level 1*** - fair value is based on quoted prices in an active market. This level includes publicly traded listed equity investments totalling $5,144 (2016: $3,775).
- ***Level 2*** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes debt securities and derivative contracts not traded on a public exchange totalling $2,764 (2016: $3,273). For these investments, fair value is either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.
- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes private mortgages, hedge funds, private equities and all inflation sensitive investments totalling $10,426 (2016: $10,927).

Reconciliation of Level 3 Investments

	2017	2016
Balance, beginning of period	$ 10,927	$ 10,180
Unrealized (losses) gains	(123)	395
Purchases of Level 3 pooled fund units	2,808	2,156
Sale of Level 3 pooled fund units	(3,186)	(1,804)
Balance, end of period	$ 10,426	$ 10,927

b) Valuation of Financial Instruments recorded by AIMCo in the Pools

The methods used by AIMCo to determine the fair value of investments recorded in the pools is explained in the following paragraphs:

- ***Interest-bearing securities***: Public interest-bearing securities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. Private mortgages are valued based on the net present value of future cash flows discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market. Private debt and loans is valued similar to private mortgages.

- ***Equities:*** Public equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. The fair value of hedge fund investments is estimated by external managers. The fair value of private equities is estimated by managers or general partners of private equity funds, pools and limited partnerships. Valuation methods for private equities may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and earnings multiple analysis.

- ***Inflation sensitive investments:*** The estimated fair value of private real estate investments is reported at the most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and discounted cash flows. The fair value of timberland investments is appraised annually by independent third party evaluators. Infrastructure investments are valued similar to private equity investments.

- ***Strategic, tactical and currency investments:*** The estimated fair value of infrastructure investments held in emerging market countries is estimated by managers or general partners of private equity funds and joint ventures. For tactical asset allocations, investments in derivative contracts provides overweight or underweight exposure to global equity and bond markets, including emerging markets. Currency investments consist of directly held currency forward and spot contracts.

- ***Foreign currency:*** Foreign currency transactions in pools are translated into Canadian dollars using average rates of exchange. At year end, the fair value of investments in other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rates.

- ***Derivative contracts:*** The carrying value of derivative contracts in a favourable and unfavourable position is recorded at fair value and is included in the fair value of the pools (see Note 4f). The estimated fair value of equity and bond index swaps is based on changes in the appropriate market-based index net of accrued floating rate interest. Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates. Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities. Forward foreign exchange contracts and futures contracts are valued based on quoted market prices. Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swap. Warrants and rights are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

NOTE 4 INVESTMENT RISK MANAGEMENT (in millions)

The Fund is exposed to financial risks associated with the underlying securities held in the pools created and managed by AIMCo. These financial risks include credit risk, market risk and liquidity risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Market risk is comprised of currency risk, interest rate risk and price risk. Liquidity risk is the risk the Fund will not be able to meet its obligations as they fall due.

The investment policies and procedures of the Fund are clearly outlined in the SIP&G approved by the Ministry of Treasury Board and Finance. The purpose of the SIP&G is to ensure the Fund is invested and managed in a prudent manner in accordance with current, accepted governance practices incorporating an appropriate level of risk. The Ministry of Treasury Board and Finance manages the Fund's return-risk trade-off through asset class diversification, target ranges on each asset class, diversification within each asset class, quality constraints on fixed income instruments and restrictions on amounts exposed to countries designated as emerging markets. Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 4b).

In order to earn the best possible return at an acceptable level of risk, the President of Treasury Board, Minister of Finance has approved the following target policy asset mix:

Asset Class	Target Asset Policy Mix	Actual Asset Mix 2017		Actual Asset Mix 2016	
Interest-bearing securities	15 - 45%	$ 3,275	17.9%	$ 3,353	18.7%
Equities	35 - 70%	8,662	47.2%	8,414	46.8%
Inflation sensitive	15 - 40%	6,190	33.8%	6,002	33.4%
Strategic, tactical and currency investments	(a)	207	1.1%	206	1.1%
		$ 18,334	100.0%	$ 17,975	100.0%

(a) In accordance with the SIP&G, AIMCo may invest up to 2% of the fair value of the Fund's investments in strategic opportunities that are outside of the asset classes listed above. AIMCo may, at its discretion, use currency overlays to an economic exposure limit of 5% of the market value of the Fund.

a) Credit Risk

i) Debt securities

The Fund is indirectly exposed to credit risk associated with the underlying debt securities held in the pools managed by AIMCo. Counterparty credit risk is the risk of loss arising from the failure of a counterparty to fully honour its financial obligations. The credit quality of financial assets is generally assessed by reference to external credit ratings. Credit risk can also lead to losses when issuers and debtors are downgraded by credit rating agencies usually leading to a fall in the fair value of the counterparty's obligations. Credit risk exposure for financial instruments is measured by the positive fair value of the contractual obligations with counterparties. The fair value of all investments reported in Note 3 is directly or indirectly impacted by credit risk to some degree. The majority of investments in debt securities are with counterparties with credit ratings considered to be investment grade.

NOTE 4 INVESTMENT RISK MANAGEMENT (in millions) CONTINUED

The table below summarizes debt securities by counterparty credit rating at March 31, 2017:

Credit rating	2017	2016
Investment Grade (AAA to BBB-)	71.5%	72.4%
Speculative Grade (BB+ or lower)	0.2%	0.0%
Unrated	28.3%	27.6%
	100.0%	100.0%

ii) Counterparty default risk - derivative contracts

The Fund is exposed to counterparty credit risk associated with the derivative contracts held in the pools. The maximum credit risk in respect of derivative financial instruments is the fair value of all contracts with counterparties in a favourable position (see Note 4f). The pools can only transact with counterparties to derivative contracts with a credit rating of A+ or higher by at least two recognized ratings agencies. Provisions are in place to either transfer or terminate existing contracts when the counterparty has their credit rating downgraded. The exposure to credit risk on derivatives is reduced by entering into master netting agreements and collateral agreements with counterparties. To the extent that any unfavourable contracts with the counterparty are not settled, they reduce the net exposure in respect of favourable contracts with the same counterparty.

iii) Security lending risk

To generate additional income, the pools participate in a securities-lending program. Under this program, the custodian may lend investments held in the pools to eligible third parties for short periods. At March 31, 2017, the Fund's share of securities loaned under this program is $810 (2016: $404) and collateral held totals $860 (2016: $428). Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) Foreign currency risk

The Fund is exposed to foreign currency risk associated with the underlying securities held in the pools that are denominated in currencies other than the Canadian dollar. Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fair value of investments denominated in foreign currencies is translated into Canadian dollars using the reporting date exchange rate. As a result, fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect on the fair value of investments. Approximately 31% (2016: 30%) of the Fund's investments, or $5,756 (2016: $5,453), are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar, 17% (2016: 16%) and the Euro, 3% (2016: 3%).

If the value of the Canadian dollar increased by 10% against all other currencies, and all other variables are held constant, the potential loss in fair value to the Fund would be approximately 3.1% of total investments (2016: 3.0%).

The following table summarizes the Fund's exposure to foreign currency investments held in the pools at March 31, 2017:

	2017		2016	
Currency [a]	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 3,065	$ (307)	$ 2,828	$ (283)
Euro	641	(64)	621	(62)
Japanese yen	413	(41)	410	(41)
British pound sterling	303	(30)	335	(33)
Other foreign currency	1,334	(134)	1,259	(126)
Total foreign currency investments	$ 5,756	$ (576)	$ 5,453	$ (545)

[a] Information on specific currencies is disclosed when the current year fair value is greater than 1% of the Fund's net assets.

c) Interest rate risk

The Fund is exposed to interest rate risk associated with the underlying interest-bearing securities held in the pools managed by AIMCo. Interest rate risk relates to the possibility that the fair value of investments will change due to future fluctuations in market interest rates. In general, investment returns from bonds and mortgages are sensitive to changes in the level of interest rates, with longer term interest bearing securities being more sensitive to interest rate changes than shorter-term bonds. If interest rates increased by 1%, and all other variables are held constant, the potential loss in fair value to the Fund would be approximately 1.1% of total investments (2016: 1.0%).

d) Price risk

Price risk relates to the possibility that pool units will change in fair value due to future fluctuations in market prices of equities held in the pools caused by factors specific to an individual equity investment or other factors affecting all equities traded in the market. The Fund is exposed to price risk associated with the underlying equity investments held in the pools managed by AIMCo. If equity market indices (S&P/TSX, S&P500, S&P1500 and MSCI ACWI and their sectors) declined by 10%, and all other variables are held constant, the potential loss in fair value to the Fund would be approximately 5.9% of total investments (2016: 6.0%). Changes in fair value of investments are recognized in the statement of remeasurement gains and losses.

e) Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements of the Fund are met through income generated from investments, and by investing in units of pools that hold publicly traded liquid assets traded in an active market that are easily sold and converted to cash. Units in pools that hold private investments like real estate, timberland, infrastructure and private equities are less easily converted to cash since the underlying securities are illiquid because they take more time to sell. The Fund's main liabilities include transfers payable to the General Revenue Fund and payables related to purchase of pool units.

f) Use of Derivative Financial Instruments in Pooled Investment Funds

The Fund has indirect exposure to derivative financial instruments through its investment in units of the pools. AIMCo uses derivative financial instruments to cost-effectively gain access to equity markets in the pools, manage asset exposure within the pools, enhance pool returns and manage interest rate risk, foreign currency risk and credit risk in the pools.

By counterparty	Number of counterparties	Fund's Indirect Share 2017	Fund's Indirect Share 2016
Contracts in favourable position (current credit exposure)	44	$ 89	$ 370
Contracts in unfavourable position	10	(79)	(62)
Net fair value of derivative contracts	54	$ 10	$ 308

i) Current credit exposure: The current credit exposure is limited to the amount of loss that would occur if all counterparties to contracts in a favourable position totaling $89 (2016: $370) were to default at once.
ii) Cash settlements: Receivables or payables with counterparties are usually settled in cash every three months.
iii) Contract notional amounts: The fair value of receivables (receive leg) and payables (pay leg) and the exchange of cash flows with counterparties in pooled funds are based on a rate or price applied to a notional amount specified in the derivative contract. The notional amount itself is not invested, received or exchanged with the counterparty and is not indicative of the credit risk associated with the contract. Notional amounts are not assets or liabilities and do not change the asset mix reported in Note 3. Accordingly, there is no accounting policy for their recognition in the statement of financial position.

Types of derivatives used in pools	Fund's Indirect Share 2017	Fund's Indirect Share 2016
Structured equity replication derivatives	$ 25	$ 100
Foreign currency derivatives	(23)	214
Interest rate derivatives	2	(8)
Credit risk derivatives	6	2
Net fair value of derivative contracts	$ 10	$ 308

i) Structured equity replication derivatives: Equity index swaps are structured to receive income from counterparties based on the performance of a specified market-based equity index, security or basket of equity securities applied to a notional amount in exchange for floating rate interest paid to the counterparty. Floating rate notes are held in equity pools to provide floating rate interest to support the pay leg of the equity index swap. Rights, warrants, futures and options are also included as structured equity replication derivatives.

ii) Foreign currency derivatives: Foreign currency derivatives include contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

iii) Interest rate derivatives: Interest rate derivatives exchange interest rate cash flows (fixed to floating or floating to fixed) based on a notional amount. Interest rate derivatives primarily include interest rate swaps and cross currency interest rate swaps, futures contracts and options.

iv) Credit risk derivatives: Credit risk derivatives include credit default swaps allowing the pools to buy and sell protection on credit risk inherent in a bond. A premium is paid or received, based on a notional amount in exchange for a contingent payment should a defined credit event occur with respect to the underlying security.

v) Deposits: At March 31, 2017, deposits in futures contracts margin accounts totalled $16 (2016: $48) and deposits as collateral for derivative contracts totalled $4 (2016: $7).

NOTE 5 NET FINANCIAL ASSETS (in millions)

Net financial assets represent the difference between the carrying value of financial assets held by the Fund and its liabilities. The following table shows accumulated net income and transfers to (from) the Fund since the Fund was created on May 19, 1976:

	Cumulative since 1976	
	2017	2016
Accumulated net income	$ 40,778	$ 38,445
Transfers to the Fund		
Resource Revenue (1976-1987)	12,049	12,049
Access to the Future [(a)]	1,000	1,000
Voted Payments	2,918	2,918
	15,967	15,967
Transfers (from) the Fund		
Section 8 transfers [(b)]		
Income	(40,983)	(38,650)
Amount Retained in the Fund	3,331	3,149
	(37,652)	(35,501)
Capital Expenditures (1976-1995) [(c)]	(3,486)	(3,486)
Other Statutory Transfers [(d)]	(255)	(255)
	(41,393)	(39,242)
Accumulated surplus from operations	15,352	15,170
Accumulated remeasurement gains	2,131	2,576
Carrying value of net financial assets	$ 17,483	$ 17,746

(a) Section 9.1 of the Act and Section 4(5) of the *Access to the Future Act* provides that up to $3 billion may be transferred from the GRF to the Fund (see Note 6 (ii)).

(b) During the year, the Fund earned net income of $2,333, of which $182 was retained in the Fund and $2,151 is payable to the GRF. Section 8 of the Act states that the net income of the Heritage Fund, less any amount retained in the Fund, in accordance with section 11 of the Act, shall be transferred to the GRF in a manner determined by the President of Treasury Board, Minister of Finance. The amount to be retained in the Fund for inflation proofing is determined by multiplying the accumulated operating surplus of the Fund from the prior fiscal year end by the estimated percentage increase in the Alberta Consumer Price Index (Alberta CPI) for the year. In accordance with section 11(2), if the Alberta CPI is a negative number, that negative number shall be treated as if it were zero.

(c) Capital expenditures include transfers of $300 to the Alberta Heritage Foundation for Medical Research in 1980 and $100 to the Alberta Heritage Scholarship Fund in 1981.

(d) Transfers of $200 to the Alberta Heritage Scholarship Fund and $3 for the Agriculture and Food Innovation Account were made during 2014-15 in accordance with the *Savings Management Act (*Sections 7 and 4(1) respectively). This Act was repealed December 17, 2014. The transfers from the Fund remain with the Alberta Heritage Scholarship Fund to be used for trades scholarships, and with Agriculture and Rural Development, to support basic and applied agricultural research, education and commercialization. Transfers out of the Fund to the Access to the Future Fund total $52.

NOTE 6 INVESTING IN ADVANCED EDUCATION (in millions)

The following notional account has been established within the Fund. The notional balance provided below is used as a base to which a rate is applied to determine future cash transfers to support advanced education and educational initiatives for the long-term benefit of Albertans:

	2017	2016
Balance, beginning of year	$ 1,319	$ 1,260
Rate of return adjustment	141	59
Balance, end of year	$ 1,460	$ 1,319

i) The Account was established for the purpose of funding the Access to the Future Fund in the Ministry of Advanced Education. The Access to the Future Fund supports innovation and excellence that enhances and expands opportunities for Albertans to participate in accessible, affordable and high-quality advanced education opportunities.

ii) A maximum of $3 billion can be allocated to the account from within the Fund of which $750 million has been allocated in 2005-06 and $250 million in 2006-07. The balance in the account is adjusted for (a) the rate of return reported by the Fund for the period and (b) transfers to the Access to the Future Fund.

iii) Maximum transfers to the Access to the Future Fund are calculated as 4.5% of the average of the closing balances of the Account for the preceding 3 fiscal years. Effective in fiscal year 2015-16, transfers to the Access to the Future Fund are made from the General Revenue Fund (Sec 4(7) of the *Access to the Future Act*). No transfers were made to the Access to the Future Fund in 2016-17 and no transfers were made in 2015-16.

NOTE 7 INVESTMENT INCOME (in millions)

The following is a summary of the Fund's investment income (loss) by asset class:

	2017	2016
Interest-bearing securities	$ 226	$ 191
Equities		
Canadian	160	(12)
Global	1,264	596
Private	195	126
	1,619	710
Inflation sensitive		
Real estate	434	222
Infrastructure	164	313
Timberland	38	(6)
	636	529
Strategic, tactical and currency investments	(14)	(42)
	$ 2,467	$ 1,388

The investment income includes realized gains and losses from disposal of pool units totalling $598 (2016: $292) and from directly held foreign exchange contracts totalling $4 (2016: ($104)). Income distributions from the pools total $1,865 (2016: $1,200).

Income earned in pooled investment funds is distributed to the Fund daily based on the Fund's pro rata share of units issued by the pool. Income earned by the pools is determined on an accrual basis and includes interest, dividends, security lending income, realized gains and losses on sale of securities determined on an average cost basis, income and expense on derivative contracts and writedowns of securities held in pools which are indicative of a loss in value that is other than temporary.

NOTE 8 INVESTMENT EXPENSES (in millions)

	2017	2016
Amount charged by AIMCo for:		
Investment costs [a]	$ 107	$ 118
Performance based fees [a]	27	32
Total investment expenses	$ 134	$ 150
(Decrease) increase in expenses	(10.7%)	2.0%
Increase in average investments under management	0.0%	0.9%
Increase in value of investments attributed to AIMCo	0.6%	4.3%
Investment expense as a percent of:		
Dollar earned	5.4%	10.8%
Dollar invested	0.7%	0.8%

(a) Please refer to AIMCo's financial statements for a detailed breakdown of the types of expenses incurred by AIMCo. Amounts recovered by AIMCo for investment costs include those costs that are primarily non-performance related including external management fees, external administration costs, employee salaries and incentive benefits and overhead costs. Amounts recovered by AIMCo for performance based fees relate to external managers hired by AIMCo.

Includes $118 thousand (2016: $118 thousand) charged to the Fund by Alberta Treasury Board and Finance for investment accounting and reporting services and $54 thousand (2016: $nil) paid to the International Forum of Sovereign Wealth Funds for membership.

NOTE 9 INVESTMENT PERFORMANCE (net of investment expenses)

Estimated investment returns are provided as supplementary information. The determination of the estimated return is based on fair values using quoted market prices and estimates of fair value where no quoted market prices are available. The estimated return includes gains and losses that have not been realized. Estimated benchmark returns are based on published market-based indices and estimates where no published index is available.

			Average Annualized Return	
Time-weighted rates of return, at fair value [a]	**2017**	**2016**	**5 years** [d]	**10 years**
Net return on investments [b]	10.7%	4.7%	11.0%	6.8%
Policy benchmark return [b]	10.1%	0.4%	10.1%	6.4%
Value added by AIMCo [c]	0.6%	4.3%	0.9%	0.4%

(a) The time-weighted rate of return involves the calculation of the return realized by the Fund over a specified period and is a measure of the total proceeds received from an investment dollar initially invested. Total proceeds include cash distributions (interest and dividend payments) and capital gains and losses (realized and unrealized).

(b) Investment returns are provided by AIMCo. The net investment return and policy benchmark return is based on a weighted average of returns for each asset class. Investment returns for assets classified as real estate, private equities, infrastructure, hedge funds and private debt are based on estimates of fair value. For these investments, measurement uncertainty exists because trading activity is infrequent and fair values are derived using valuation techniques which incorporate assumptions that are based on non-observable market data. Reasonably possible alternative assumptions could yield an increase or decrease in the fair value amounts and investment returns reported for these types of investments. Any change in estimated returns, resulting from new information received after the cut-off date for preparation of the Fund's financial statements, will be reflected in the next reporting period.

(c) In the SIP&G, the Ministry of Treasury Board and Finance expects that the investments held by the Fund will return approximately 100 basis points, or 1% per annum, above the policy benchmark.

(d) In accordance with the SIP&G, over a five-year period, it is expected that the policy portfolio will earn an average return of 4.5%, adjusted for inflation and value added by investment manager of 1.0%. The five-year annualized CPI is 1.4%, bringing the five-year annualized Portfolio Return Expectation to 6.9%.

NOTE 10 FINANCIAL STATEMENTS

Quarterly and annual financial statements are prepared by the Department of Treasury Board and Finance and are approved by the Department's Senior Financial Officer and Deputy Minister. The statements report the activities and financial performance of the Fund for the period and are provided to the Standing Committee on the Alberta Heritage Savings Trust Fund in accordance with section 15 and 16 of the Act. Unaudited interim financial statements for the first three quarters of each fiscal year are made available to the public by the President of Treasury Board, Minister of Finance within two months following each quarter-end. Annual audited financial statements of the Fund are included in the annual report of the Ministry of Treasury Board and Finance which is made public on or before June 30 following each fiscal year ending on the preceding March 31.