Alberta Heritage Savings Trust Fund

2017–2018 Annual Report

Heritage Fund

Alberta

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Highlights

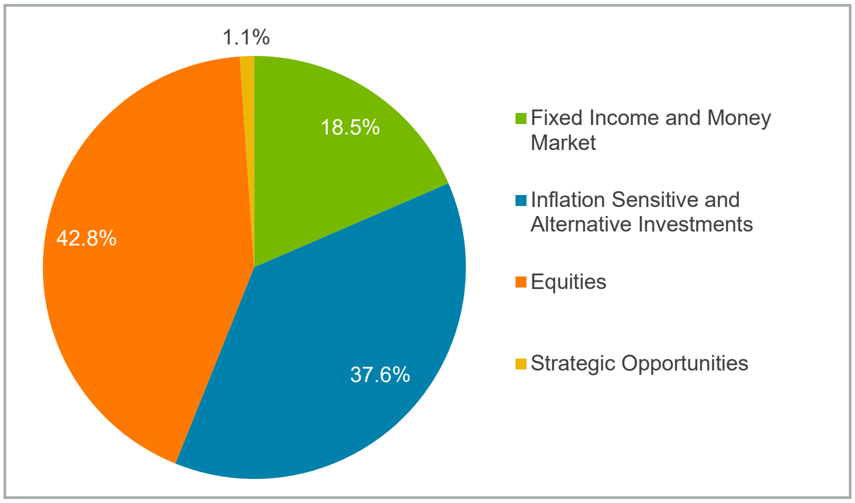
8.5% (net of fees)

1 YEAR RATE OF RETURN

$17.4 billion

FAIR VALUE OF NET ASSETS

Asset Mix as at March 31, 2018



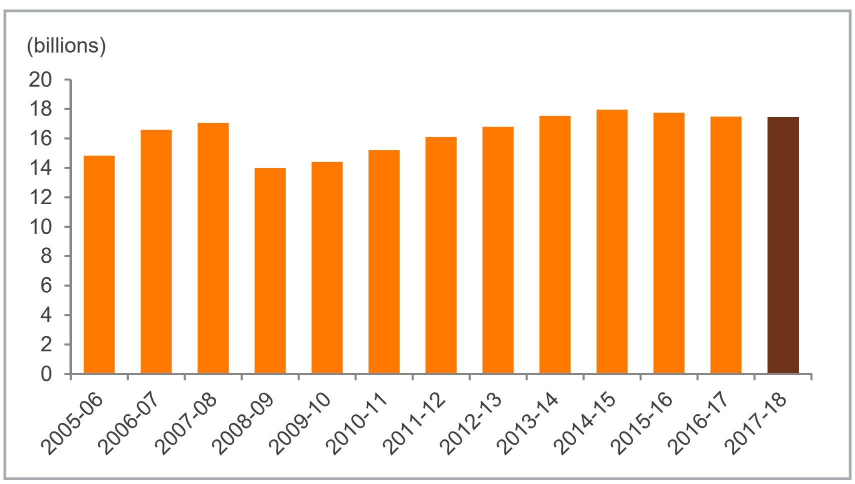
7.7% net of fees

10 YEAR ANNUALIZED RATE OF RETURN

$1,557 million

INVESTMENT INCOME TRANSFERRED TO GENERAL REVENUE FUND

Market Value at Fiscal Year End



$230 million

INVESTMENT INCOME RETAINED FOR INFLATION-PROOFING

$43.0 billion

CUMULATIVE TRANSFERS TO GENERAL REVENUE FUND SINCE INCEPTION

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Message from the President of Treasury Board, Minister of Finance

In 2017-18, I am pleased that the Heritage Fund continued to see strong returns, generating an 8.5 per cent return and earning more than $1.7 billion. This is $622 million more than we projected in Budget 2017. The Heritage Fund's strong performance from equity and inflation sensitive assets have generated better-than-expected income, leading to the high returns we see today. I would like to thank the dedicated Board and staff at the Alberta Investment Management Corporation (AIMCo) for their exceptional work on behalf of Albertans.

Through the Alberta Investment Management Corporation (AIMCo), we continue to seek out strong investment opportunities – both globally and in Alberta – that maximize returns. The Alberta Growth Mandate continues to see strong investment growth, generating benefits to the province without sacrificing long-term financial returns. Since the mandate was introduced in 2015, AIMCo has independently invested $362.1 million from the Heritage Fund to support growth opportunities in the province that will provide long-term financial returns that benefit Albertans. AIMCo will continue to review how investments are identified, reviewed and managed within the current investment structure, to ensure Albertans get maximum return on their investment.

Our government continues to support Alberta's economic recovery today while ensuring there is a strong foundation for future growth. The Heritage Fund plays an important role in helping us build a more diversified, resilient economy for the future. The Heritage Fund is our province's long-term savings vehicle. The Heritage Fund will continue to contribute to our strong balance sheet, and will support Albertans now and into the future.

[Original signed by]

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% 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% 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 Alberta's revenue as shown in the consolidated annual financial statements.

In 2017-18, the Heritage Fund earned $1,787 million in net income, $230 million of which was retained in the Fund for inflation proofing and $1,557 million was transferred to the GRF.

WHAT IS THE HERITAGE FUND WORTH TODAY?

The net financial assets of the Fund were valued at $17.4 billion on March 31, 2018.

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.

2018

Net Income of $1.8 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, 2010 the fair value of the Fund has increased from $14.4 billion to $17.4 billion, in part due to the legislated inflation proofing which has kept $2.0 billion in the Fund and the growth of investments. Since 2010, the Fund, has provided $10.3 billion in transfers to the GRF to provide for projects and programs, as well as $255 million as part of the *Savings Management Act*.

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 Goals (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 26, 2017 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% 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.

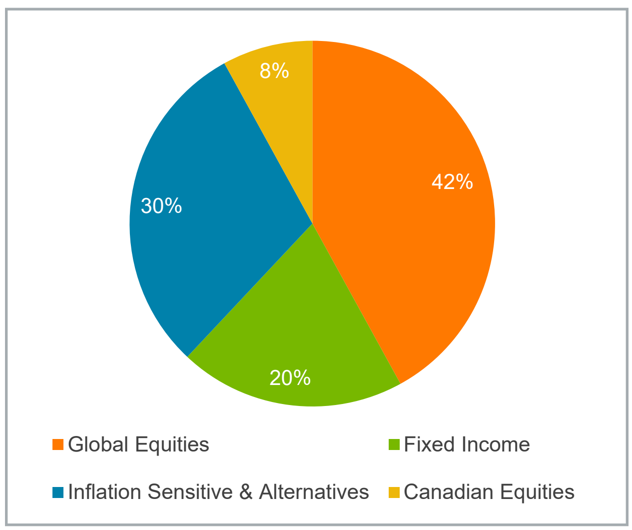
The President of Treasury Board, Minister of Finance approves the SIP&G for the Fund. This document describes the Heritage Fund's target policy portfolio. The policy portfolio provides guidelines for investment strategies available to the Fund. This base portfolio is determined through extensive financial 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% 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's 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 20 separate transactions for a total of $362.1 million. AIMCo is continuing to refine the process by which investment opportunities are presented, reviewed and managed within the Fund's current investment structure.

The investments in TransAlta Renewables and Savanna Energy have been exited. Both investments were profitable endeavours for the Heritage Fund.

Transaction Date	Company Name	Alberta Capital Growth Commitment ($million)	Instrument	Sector
November 23, 2015	TransAlta Renewables	45.9	Equity	Renewable Energy
December 22, 2015	Calfrac Well Services	6.5	Equity	Oil & Gas
June 10, 2016	Calfrac Well Services	39.9	Debts with Warrants	Oil & Gas
August 10, 2016	Pine Cliff Energy	6.1	Interest Bearing Notes/Warrants	Oil & Gas
October 7, 2016	Journey Energy	6.1	Interest Bearing Notes/Warrants	Oil & Gas
"Nov. 1, 2015 to December 31, 2017 (approval on Oct. 1, 2014)"	10th Avenue Residential	24.6	Direct Investment	Real Estate
"Nov. 1, 2015 to December 31, 2017 (approval on Mar. 23, 2011)"	Manning Town Centre	6.4	Direct Investment	Real Estate
"Nov. 1, 2015 to December 31, 2017 (approval on Jul. 23, 2014)"	Stonegate Industrial Building A&E	6.9	Direct Investment	Real Estate
"Nov. 1, 2015 to December 31, 2017 (approval on May 25, 2015)"	West Village Towers	0.3	Direct Investment	Real Estate
"Nov. 1, 2015 to December 31, 2017 (approval on Sept. 14, 2016)"	Stonegate Common Phase I Retail	4.2	Direct Investment	Real Estate
November 8, 2016 to December 6, 2016	Calfrac Well Services	1.6	Equity	Oil & Gas
December 13, 2016	Savanna Energy	45.7	Debts with Warrants and Equity	Oil & Gas
December 12, 2016 to December 30, 2016	Pine Cliff Energy	0.2	Equity	Oil & Gas
December 15, 2016 to December 23, 2016	Savanna Energy	0.4	Equity	Oil & Gas
January 31, 2017	Razor Energy	7.2	Loan Facility/ Common Shares	Oil & Gas
February 17, 2017	Perpetual Energy	10.1	Debts and Equity	Oil & Gas
March 3, 2017	Journey Energy	2.6	Warrant Exercise	Oil & Gas
May 9, 2017	Whitecap Resources	8.7	Interest Bearing Notes	Oil & Gas
May 12, 2017	Razor Energy	0.7	Equity	Oil & Gas
May 25, 2017	Ikkuma Resources	8.9	Debts with Warrants	Oil & Gas
May 31, 2017	Ember Resources	9.3	Preferred with Warrants	Oil & Gas
June 9, 2017	Kinder Morgan Canada	29.1	Credit Facility	Oil & Gas
August 1, 2017	Trident Exploration Corp	12.3	Debt	Oil & Gas
August 8, 2017	Bonnefield	21.2	Private Equity Direct Investment	Agriculture
September 22, 2017	Western Energy Services	43.8	Loan Facility/ Common Shares	Oil & Gas
January 15, 2018	Razor Energy	1.0	Equity	Oil & Gas
January 22, 2018	Journey Energy	4.1	Equity	Oil & Gas
February 1, 2018	Wolf Midstream	8.3	Loan Facility/ Common Shares	Oil & Gas
Total Investments to date:		**362.1**		

The 2017–18 Year in Review

The global economy exceeded expectations in 2017-18 as it grew at the fastest pace in six years. A marked rebound in global trade, business investment and industrial production facilitated a synchronized expansion across developed and developing economies for the first time following the 2009 global financial crisis. In advanced economies, there was a pronounced upturn in the Euro Area and solid US growth was underpinned by a broad-based upswing in energy investment. The pickup in industrial production in Asia and global trade also lifted the Chinese and Indian economies, while firmer commodity prices fuelled the recovery in resource-exporting countries such as Brazil and Russia.

With global growth gaining momentum, central banks in advanced economies looked to tighten monetary policy. The US Federal Reserve and the Bank of Canada increased interest rates three times over the past fiscal year. The European Central Bank kept rates unchanged but began to scale back its bond-buying stimulus program. Core inflation has recently firmed in some advanced economies, particularly in the US and Canada, where wage growth has picked up amid tight labour market conditions.

Rising global growth contributed to an uplift in oil and other non-energy commodities prices. Oil prices rose steadily since mid-2017, supported by robust global demand and continued supply restraint by the Organization of the Petroleum Exporting Countries (OPEC) and Russia. Mounting supply-side risks arising from renewed US sanctions against Iran and falling production in Venezuela pushed WTI to a three-year high of about US$65/barrel at the end of the fiscal year.

After robust growth throughout most of 2017, global equity markets experienced bouts of volatility in the first quarter of 2018. Concerns over higher inflation in January and news of US tariffs on steel and aluminum in March contributed to equity market declines. Though most US equity markets saw double-digit growth over the fiscal year, the TSX had minimal gains reflecting muted growth in the value of resource stocks.

Uncertainties generated from increased US protectionist trade policies impacted the Canadian tightening cycle in the last quarter of the fiscal year. Accordingly, the Canadian dollar lost 5.9% of its value after peaking at a two-year high of over 82 US cents/C$ in September 2017. The Canadian dollar closed the 2017-18 at 0.78US$/C$, down 3.2% from a year prior.

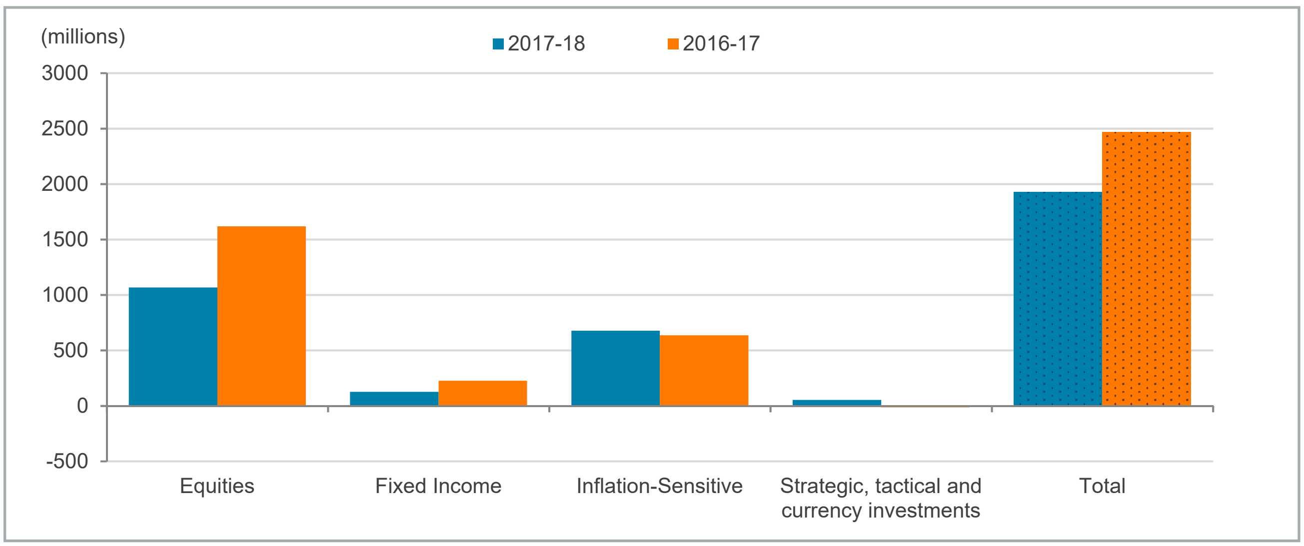
INVESTMENT INCOME

The Heritage Fund earned gross investment income for the fiscal year ending March 31, 2018 of $1,926 million. This is less than the $2,467 million earned last fiscal year, which was the most income the Heritage Fund earned in a year. Investment expenses for the year were $139 million, resulting in net investment income of $1,787 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 $230 million, based on the Alberta Consumer Price Index increase of 1.5%.

Net income was greater than what was projected in *Budget 2017* because of better-than-expected income generated from equity and inflation sensitive assets, and from the sale of assets that had gains earned in previous years. *Budget 2017* projected net income of $1,165 million, which was $622 million less than what was actually earned.

The equity assets in the portfolio generated $1,067 million, which was approximately half of the total income the portfolio earned during the year. The equity portfolio generated $552 million less income than it did during the previous year. The inflation-sensitive assets in the portfolio generated $678 million in income, which was $42 million more than the previous year. The fixed income portfolio generated $127 million, which was $99 million less than the previous year. Strategic, tactical and currency investments made $54 million during the year, which was $68 million more than the $14 million loss suffered last year.

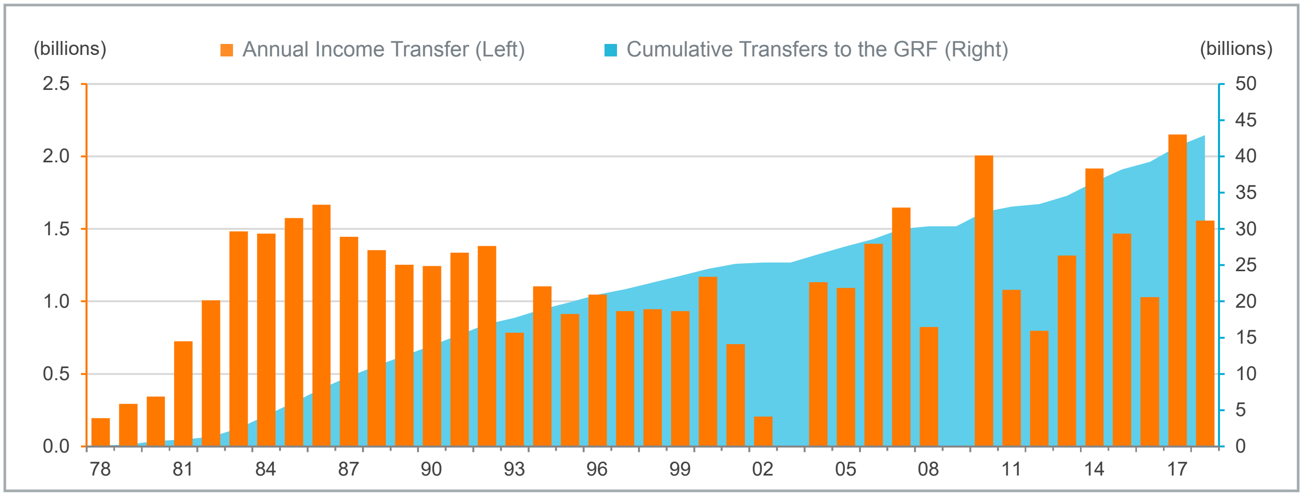
Investment Income by Asset Class



INCOME TRANSFER AND INFLATION-PROOFING

Established in 1976, the Heritage Fund has earned $42.6 billion in accumulated net income as of March 31, 2018, of which $3.6 billion has been retained for inflation proofing. Income transfers to the General Revenue Fund commenced in 1982-83, and since then $39.2 billion has been transferred to support government programs and projects. In addition to the income transfers $3.5 billion was transferred out of the fund between 1976 and 1995 to pay for projects and seed other endowments in Alberta. Overall, the Heritage Fund has contributed $43.0 billion to the benefit of Albertans since its creation in 1976.

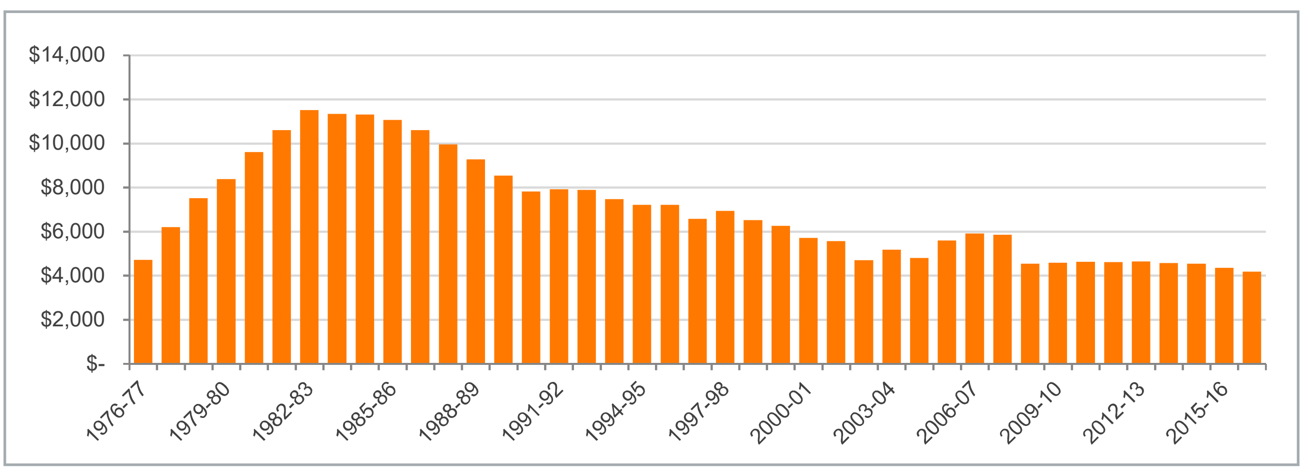
Income and Cumulative Transfer to GRF



Cumulative inflation since the Fund's inception in 1976 has caused prices to increase more than four times. The chart below shows how inflation and population growth has deteriorated the fund over time. The market value per capita reached its peak, in real dollars, in 1983 when the fund was worth $11,507 per Albertan. It now stands at $4,034 per Albertan. There are three factors that have led to the decrease over the years. Firstly, in 1983 deposits into the fund from natural resource revenues were decreased and completely stopped in 1987. Secondly, the realized income generated by the fund was transferred to the Province. Although inflation proofing since 2005 has somewhat stabilized the per capita value of the fund, the third factor that has deteriorated the market value per capita is the population of the Province has grown by more than 130% since 1976.

Market Value Inflation Adjusted Per Capita

(2018 dollars)



INVESTMENT EXPENSES

The Heritage Fund's investment expenses were $139 million for the year ended March 31, 2018, $5 million more than the previous year. The expenses for the year were $14 million more than projected in *Budget 2017*. The projected investment expenses in the budget do 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 2017-18 were 0.79% of the average fair value of investments compared to 0.74% during the previous year.

Investment Expenses

(millions)	2018	2017
Total Investment expenses	$139	$134
Average Fair Value of Investments	$17,558	$18,040
Per cent of investments at average fair value	0.79%	0.74%

ASSET MIX

The Heritage Fund's asset mix has changed substantially over the past year.

Inflation-sensitive and alternatives assets have increased 3.8% from 33.8% to 37.6%. The increase in this asset class category can be attributed to two factors: growth in the value of the investments as well as sale of liquid assets (equities and fixed income) to generate funds to facilitate the income transfer. Infrastructure investments increased from 9.1% to 9.5%. The real estate allocation increased from 22.1% to 25.2% and timberland saw a small increase.

Fixed income had a small increase during the year in its allocation, from 17.9% to 18.5%. The equity allocation decreased from 47.2% to 42.8%.

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 2018	March 2017	Policy Range
Fixed Income and Money Market (20%)	**18.5%**	**17.9%**	**15-45%**
Deposits and short-term	0.6%	0.6%	0-25%
Bonds and mortgages	17.9%	17.3%	10-35%
Inflation-Sensitive and Alternative Investments (30%)	**37.6%**	**33.8%**	**15-40%**
Real estate	25.2%	22.1%	10-20%
Infrastructure	9.5%	9.1%	5-15%
Timberland	2.9%	2.6%	0-5%
Equities (50%)	**42.8%**	**47.2%**	**35-70%**
Canadian	8.1%	9.0%	5-15%
Global developed	24.2%	27.7%	20-65%
Emerging markets	3.6%	3.8%	0-10%
Private	6.9%	6.7%	0-10%
Strategic Opportunities	**1.1%**	**1.1%**	**0-5%**
Alberta Growth Mandate*			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, 2018, the Fund returned 10.4% on an annualized basis, which is higher than the return on the policy benchmark of 9.5%. Over the last five-year period, the CPI plus 4.5 target was 6.0%, which the Fund has beaten. Over a 10-year horizon, the Fund has returned 7.7% versus a policy benchmark return of 7.2%.

The Heritage Fund net of fees return was 8.5% during the 2017-18 fiscal year, while the policy benchmark return was 7.1%. The asset classes that added the most value were global equity, real estate, timberlands and infrastructure.

Total Fund Performance

	2017-18	2016-17	5 Year	10 Year
Fund Rate of Return	8.5	10.7	10.4	7.7
Benchmark	7.1	10.1	9.5	7.2
Active Management	1.4	0.6	0.9	0.5
Long Term Return Target - CPI + 4.5	6.1	5.9	6.1	6.2
Active management target	1.0	1.0	1.0	1.0
Total Target Return	7.1	6.9	7.1	7.2

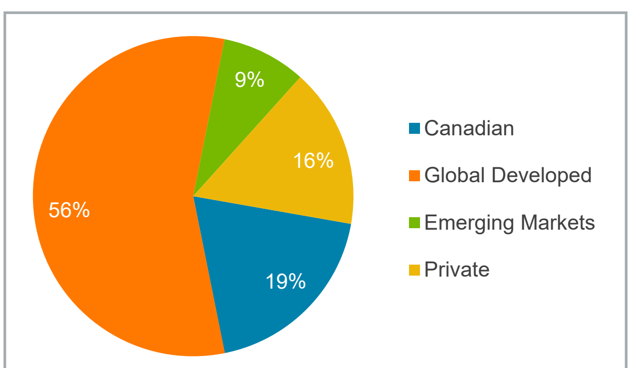
Asset Class Return versus Benchmark

	1 Year Return	1 Year Benchmark	5 Year Return	5 Year Benchmark
Fixed Income	1.9	1.4	4.2	2.9
Inflation Sensitive and Alternative Investments	11.5	8.1	9.5	7.6
Real Estate	11.5	9.1	9.4	8.1
Infrastructure	9.4	6.0	9.2	6.5
Timberland	18.5	6.0	11.9	6.5
Equities	8.7	8.8	13.0	13.3
Canadian	2.5	1.7	7.8	6.9
Global	12.3	10.9	15.6	14.5
Private	0.9	8.0	6.1	13.7

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 $7.6 billion or 42.8% of its assets in equity investments as at March 31, 2018. This is lower than the previous year's holdings of $8.7 billion or 47.2%. The equities portfolio returned 8.7% for the year ended March 31, 2018. The equity benchmark had a return of 8.8%. Looking at the five-year performance of the equity portfolio it has returned 13.0% per year, trailing the equity benchmark by 0.3%, due to underperformance in the private equity portfolio.

Equities



Canadian Equity

The S&P/TSX Composite Index returned 1.7% 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 hampered by returns in the energy sector of -9.0%, as crude oil price remained lower price enviroment for most of the year. The financial sector returned 5.7% while materials posted a -2.9% return. The Heritage Fund had $1.4 billion invested in Canadian equity, which was down from the previous year. The Fund's Canadian equity portfolio returned 2.5% for the year, which was above its benchmark by 0.8%. Over the past five years the Canadian equity portfolio has returned 7.8% per year, while its benchmark has returned 6.9%.

Global Equities

The Fund's global equity portfolio returned 12.3% for the fiscal year, compared to benchmark return, which was 10.9%. At year end, global equities totalled $4.9 billion, down from $5.8 billion in the previous year. The long-term performance of the global equity portfolio has been very good. During the last five years, the global equity portfolio has returned 15.6% per annum. Over the same time period, the benchmark has returned 14.5% 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 3.6% of the total portfolio down from 3.8% 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

As at March 31, 2018

Holding	Weight (%)	$ in Millions
Royal Bank of Canada	7.1%	$96.8
Toronto-Dominion Bank	6.8%	$93.1
Bank of Nova Scotia	4.4%	$60.3
Suncor Energy Inc.	4.1%	$55.5
Canadian National Railway Co.	3.4%	$46.0
Bank of Montreal	2.6%	$35.1
Manulife Financial Corp.	2.3%	$31.6
BCE Inc.	2.0%	$27.8
Canadian Imperial Bank of Commerce	2.0%	$27.1
Enbridge Inc.	1.8%	$25.3
Total - Top 10 Holdings	36.5%	$498.6

Top 10 Global Public Equity Holdings

As at March 31, 2018

Name	Weight (%)	$ in Millions
Apple Inc.	1.4%	$68.9
Microsoft Corp.	1.3%	$64.3
Amazon.com Inc.	1.1%	$51.2
Facebook Inc.	0.9%	$42.2
Berkshire Hathaway Inc.	0.7%	$35.2
JPMorgan Chase & Co.	0.7%	$33.3
Exxon Mobil Corp.	0.7%	$33.3
Alphabet Inc. (Class C)	0.7%	$32.3
Johnson & Johnson	0.7%	$31.6
Alphabet Inc. (Class A)	0.6%	$30.9
Total – Top 10 Holdings	8.8%	$423.2

Private Equity

Private equity investment was $1.2 billion at year end, the same as 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 0.9% return for the fiscal year. The benchmark for the fiscal year returned 8.0%. The private equity portfolio over the past five years has produced an annualized return of 6.1%. Even with the respectable returns experienced by the portfolio, it still trailed the benchmark for private equity, which annually returned 13.7%.

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, 2018, the Fund had $3.3 billion or 18.5% invested in the fixed income portfolio, which was $7 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 1.9%, 0.5% more than the benchmark retrun of 1.4%. The portfolio had cash or money market position of $87 million at the end of the year, down from $103 million the previous year.

The fixed income portfolio has returned 4.2% 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 2.9% per year.

Bonds

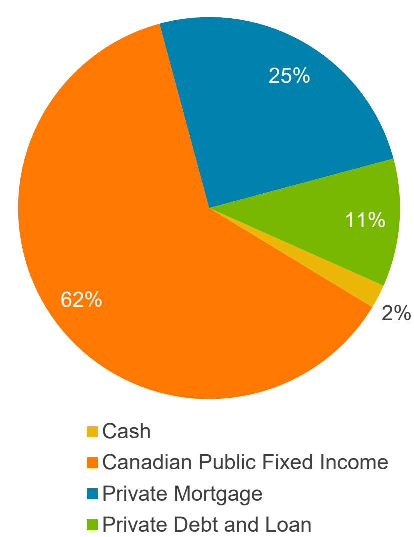
The public fixed income portfolio comprises high quality government, corporate bonds and cash investments. The main bond portfolio, which is measured against the FTSE/TMX Universe Bond Index, was valued at $2.0 billion at year end, the same as at the end of the previous year. The bond portfolio returned 1.8% for the year, beating the benchmark return of 1.4%. 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 4.0% over the last five years, beating the annualized benchmark return of 2.9%.

Private Equity Program Top 10 Holdings

As at March 31, 2018

Name	Sector
Vue Entertainment (Artist)	Consumer Discretionary
ERM	Business Services
Hayward Industries Inc	Consumer Discretionary
New Mountain Partners IV LP	Fund
CCMP III	Fund
Ring Partners II	Industrials
Lion Capital 3	Fund
Alegeus Technologies (Talon)	Health Care
Schustermann & Borenstein (Prestige)	Consumer Discretionary
Sterling IV	Fund

Fixed Income



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 $812 million at year end, a decrease of $7 million from the previous year's value. The private mortgage investments returned 1.7%, which was 0.3% more than the benchmark return. Over the past five years, the annualized return for the private mortgage portfolio was 3.8%, beating the benchmark return of 2.9%.

Private Debt and Loan

The Heritage Fund held $352 million of the private debt and loan assets as at March 31, 2018.
The return for private debt and loan for the year was 2.7%. 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 four years, but the annualized return for those three years is 4.9%, which beats the annualized benchmark return of 3.4%.

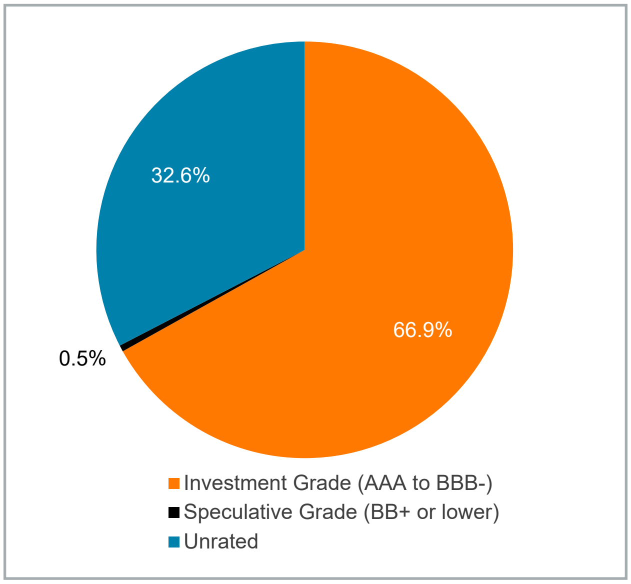
INFLATION-SENSITIVE AND ALTERNATIVE INVESTMENTS

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. More than two-thirds of the investments in this asset class are invested in real estate.

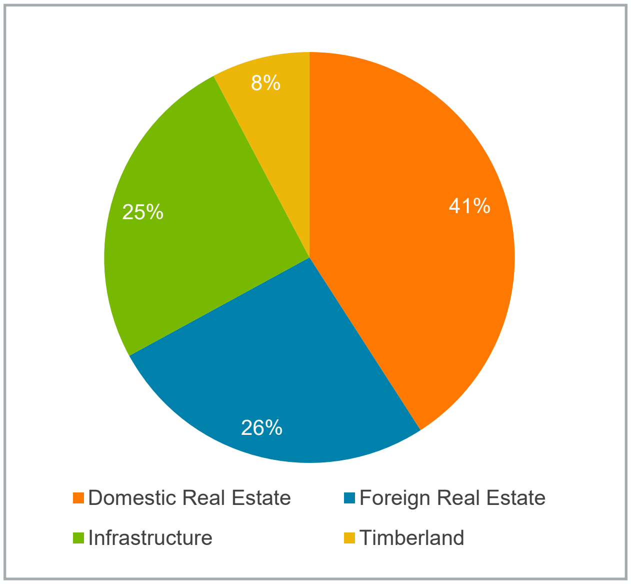
As of March 31, 2018, the inflation sensitive investments made up 37.6% of the total investments, up from 33.8% in the previous year. The long term policy target weight of these assets is 30%.

Total inflation sensitive investments are $6.6 billion, an increase of $428 million over the previous year. The increase includes some gains in the value of investments made in previous years and additional investments made during 2017-18. The overall combined return for inflation sensitive and alternative investments was 11.5%, 3.4 percentage points greater than the benchmark's return of 8.1%.
The inflation sensitive and alternatives portfolio has returned 9.5% per year over the last five years, while the benchmark for the asset class had a return of 7.6% per year.

Ratings



Inflation-Sensitive



Real Estate

At year end, the Heritage Fund's investment in real estate was $4.4 billion, up from $4.1 billion at the end of the previous year. Real estate holdings were predominantly Canadian with $2.7 billion invested, which is 61% of the real estate portfolio. The portfolio's foreign real estate has $1.7 billion invested, up from $1.4 billion at the end of the previous year. Real estate returned 11.5% for the year. The return beat the benchmark, which returned 9.1%. Over the past five years the real estate portfolio has returned a very strong annualized 9.4%, out pacing the benchmark return of 8.1%.

Top 10 Domestic Real Estate

As at March 31, 2018

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	**$1,479.0 (millions)**	

Top 10 Foreign Real Estate

As at March 31, 2018

Property	Sector	Region
Whitewood TV City	Residential	UK
Ultrabox Logistics U.K.	Industrial	UK
White City Place	Office	UK
WPT Industrial REIT	Equity	USA
Brookfield Fund I-A	Fund	USA
Barnhart AM Mexico Fund I	Fund	Mexico
Leadenhall Triangle	Office	UK
M25 Causeway Parks	Office	UK
EVOQ Los Angeles	Office	USA
BORO - Meridian Co-Invest	Office	USA
Total – Top 10 Holdings	**$758.0 (millions)**	

Timberlands

Investments in Canadian and foreign timberland totalled $513 million, up $44 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 18.5% versus its benchmark return of 6.0%. Over the last five years, the timberland portfolio has returned an annualized 11.9%, which beat its benchmark's return of 6.5% per annum.

Timberlands Program Holdings

As at March 31, 2018

Holding	Geography
Forestry Investment Trust	Australia
Island Timberlands LP	Canada
Australia New Zealand Forest Fund	Australia and New Zealand
Global Timber Investors 8	Australia, New Zealand, and Latin America
Shasta Cascade Timberlands Co Inv	United States
Bonnefield Canadian Farmland LP IV	Canada
ORM Timber Fund IV LLC	United States
Hancock Timberland and Farmland LP	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, which was the same as 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 9.4% compared to its benchmark return of 6.0%. Over the past five years, the infrastructure assets have returned 9.2% per annum, while the benchmark has returned 6.5% per annum.

Private Infrastructure Program Top 10 Holdings

As at March 31, 2018

Company	Sector	Geography
SAESA Group	Integrated Utilities	Chile
Howard Midstream Energy	Pipelines & Midstream	United States
London City Airport	Transportation	United Kingdom
sPower	Renewable Energy	United States
Porterbrook	Transportation	United Kingdom
Freeport	Pipelines & Midstream	United States
Puget Energy Inc.	Integrated Utilities	United States
Frequency Infrastructure Group	Telecommunications	Australia / UK
WPX JV (Catalyst)	Pipelines & Midstream	United States
Highstar Capital IV Prism LP	Fund	United States
Total Top 10 Holdings	**$1,656.8 (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 62.9% of the Fund at March 31, 2018. This is down from the previous year, when the Fund had 68.6% 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 $1.5 billion invested in Alberta, the largest portion of which is in real estate, which has just under $904 million invested in various properties located in Alberta. This is followed by $356 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, 2018

	2018	2017
Canadian Dollar	62.8%	68.6%
US Dollar	17.5%	16.7%
Euro	5.9%	3.4%
Japanese Yen	2.1%	2.3%
British Pound	4.7%	1.7%
Other	6.9%	7.3%
Total	**100.0%**	**100.0%**

Alberta Exposure

As at March 31, 2018

Asset Class	Market Value (Millions)
Real Estate	$904.0
Equity	$355.5
Fixed Income	$52.3
Mortgages	$104.6
Private Equity	$41.1
Total	**$1,457.5**

Historical Summary of Operations

May 19, 1976 to March 31, 2018

(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
2017-18	1,787	-	-	-	(1557)[d]			15,582
TOTAL	42,565	12,049	2,918	1,000	(39,209)	(3,486)	(255)	15,582

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 Inflation proofing occurred. As of March 31, 2018 the accumulated amount retained in the Fund for inflation-proofing was $3,561 million (2017: $3,331 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.

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March 31, 2018 Financial Statements

Alberta Heritage Savings Trust Fund

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Auditor General OF ALBERTA

Independent Auditor's Report

To the President of Treasury Board, 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, 2018, 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, 2018, 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 W. Doug Wylie FCPA, FCMA, ICD.D]
Auditor General
June 6, 2018
Edmonton, Alberta

Statement of Financial Position

As at March 31, 2018
(in millions)

	2018	2017
Financial assets		
Investments (Note 3)	$ 17,633	$ 18,334
Receivable from sale of investments	10	-
	17,643	18,334
Liabilities		
Due to the General Revenue Fund	207	851
Payable from purchase of investments	10	-
	217	851
Net financial assets	$ 17,426	$ 17,483
Net financial assets (Note 5)		
Accumulated operating surplus	$ 15,582	$ 15,352
Accumulated remeasurement gains	1,844	2,131
	$ 17,426	$ 17,483

Statement of Change in Net Financial Assets

Year Ended March 31, 2018
(in millions)

	2018		2017
	Budget	Actual	Actual
Net surplus retained in the Fund	$ 292	$ 230	$ 182
Net remeasurement (losses)		(287)	(445)
(Decrease) in net financial assets		**(57)**	**(263)**
Net financial assets, beginning of year		17,483	17,746
Net financial assets, end of year		$ 17,426	$ 17,483

The accompanying notes are part of these financial statements.

Statement of Operations and Accumulated Surplus

Year Ended March 31, 2018

(in millions)

	2018		2017
	Budget	Actual	Actual
Investment income (Note 7)	$ 1,290	$ 1,926	$ 2,467
Investment expenses (Note 8)	(125)	(139)	(134)
Net income from operations	1,165	1,787	2,333
Transfers to the General Revenue Fund (Note 5b)	(873)	(1,557)	(2,151)
Net surplus retained in the Fund (Note 5b)	**$ 292**	**230**	**182**
Accumulated operating surplus, beginning of year		15,352	15,170
Accumulated operating surplus, end of year		$ 15,582	$ 15,352

Statement of Remeasurement Gains and Losses

Year Ended March 31, 2018

(in millions)

	2018	2017
Unrealized gain on investments	$ 25	$ 157
Less: Amounts reclassified to the Statement of Operations - realized gains on investments	(312)	(602)
Net remeasurement (losses)	**(287)**	**(445)**
Accumulated remeasurement gains, beginning of year	2,131	2,576
Accumulated remeasurement gains, end of year	$ 1,844	$ 2,131

The accompanying notes are part of these financial statements.

Statement of Cash Flows

Year Ended March 31, 2018
(in millions)

	2018	2017
Operating transactions		
Net income from operations	$ 1,787	$ 2,333
Non-cash items included in net income	(312)	(602)
	1,475	1,731
Increase in accounts receivable	(10)	-
Increase in accounts payable	10	-
Cash provided by operating transactions	1,475	1,731
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	4,113	5,236
Purchase of investments	(3,403)	(5,432)
Cash provided by (used in) investing transactions	710	(196)
Transfers		
Transfers to the General Revenue Fund	(1,557)	(2,151)
(Decrease) increase in amounts due to the General Revenue Fund	(644)	622
Cash (used in) transfers	(2,201)	(1,529)
(Decrease) increase in cash	(16)	6
Cash at beginning of year	103	97
Cash at end of year	$ 87	$ 103
Consisting of Deposits in the Consolidated Cash Investment Trust Fund (CCITF) *	$ 87	$ 103

* The CCITF is a highly-liquid, short-term money market pooled fund consisting primarily (98%) 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, 2018

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), a Crown corporation within the Ministry of Treasury Board and Finance, 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) CHANGES IN ACCOUNTING POLICY

Effective April 1, 2017, management implemented the following accounting standards required for government organizations with fiscal years beginning on or after April 1, 2017. The adoption of these standards was applied on a prospective basis and did not have an impact on the financial position or performance of the Fund.

- **PS 2200 Related Party Disclosures and PS 3420 Inter-Entity Transactions**

  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**

  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.

h) FUTURE CHANGES IN ACCOUNTING POLICY

The Public Sector Accounting Board issued the following accounting standard:

- **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 this standard 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).

	Fair Value Hierarchy [(a)]				
Asset class	Level 1	Level 2	Level 3	**2018**	**2017**
Interest-bearing securities					
Deposits in CCITF	$ -	$ 87	$ -	$ 87	$ 103
Bonds, mortgages and private debt	-	2,017	1,164	3,181	3,172
	-	2,104	1,164	3,268	3,275
Equities					
Canadian	1,090	71	279	1,440	1,653
Global developed	2,897	242	1,115	4,254	5,086
Emerging markets	483	36	124	643	694
Private	-	-	1,218	1,218	1,229
	4,470	349	2,736	7,555	8,662
Inflation sensitive					
Real estate	-	-	4,438	4,438	4,055
Infrastructure	-	-	1,667	1,667	1,666
Timberland	-	-	513	513	469
	-	-	6,618	6,618	6,190
Strategic, tactical and currency investments *	-	18	174	192	207
Total Fair Value of Investments	$ 4,470	$ 2,471	$ 10,692	$ 17,633	$ 18,334

* 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 $4,470 (2017: $5,144).
- ***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 $2,471 (2017: $2,764). 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 $10,692 (2017: $10,426).

NOTE 3 INVESTMENTS (in millions) CONTINUED

Reconciliation of Level 3 Investments

	2018	2017
Balance, beginning of year	$ 10,426	$ 10,927
Unrealized losses	(14)	(123)
Purchases of Level 3 pooled fund units	1,745	2,808
Sale of Level 3 pooled fund units	(1,465)	(3,186)
Balance, end of year	$ 10,692	$ 10,426

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 are valued similar to private equities. 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 2018		Actual Asset Mix 2017	
Interest-bearing securities	15 - 45%	$ 3,268	18.5%	$ 3,275	17.9%
Equities	35 - 70%	7,555	42.8%	8,662	47.2%
Inflation sensitive	15 - 40%	6,618	37.6%	6,190	33.8%
Strategic, tactical and currency investments	(a)	192	1.1%	207	1.1%
		$ 17,633	100.0%	$ 18,334	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.

NOTE 4 INVESTMENT RISK MANAGEMENT (in millions) CONTINUED

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. The credit rating of a debt security may be impacted by the overall credit rating of the counterparty, the seniority of the debt issue, bond covenants, maturity distribution and other factors. 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 have credit ratings considered to be investment grade.

The table below summarizes the Fund's investment in debt securities by credit rating at March 31, 2018:

Credit rating	2018	2017
Investment Grade (AAA to BBB-)	66.9%	71.5%
Speculative Grade (BB+ or lower)	0.5%	0.2%
Unrated	32.6%	28.3%
	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). AIMCo is responsible for selecting and monitoring derivative counterparties on behalf of the Fund. AIMCo monitors counterparty risk exposures and actively seeks to mitigate counterparty risk by requiring that counterparties collateralize mark-to-market gains for the Fund. Provisions are in place to allow for termination of the contract should there be a material downgrade in a counterparty's credit rating. 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 Fund's 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, 2018, the Fund's share of securities loaned under this program is $592 (2017: $810) and collateral held totals $632 (2017: $860). 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 37% (2017: 31%) of the Fund's investments, or $6,552 (2017: $5,756), are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar, 18% (2017: 17%) and the Euro, 6% (2017: 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 3.7% of total investments (2017: 3.1%).

The following table summarizes the Fund's exposure to foreign currency investments held in the pools at March 31, 2018:

	2018		2017	
Currency [a]	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 3,089	$ (309)	$ 3,065	$ (307)
Euro	1,043	(104)	641	(64)
British pound sterling	834	(83)	303	(30)
Japanese yen	366	(37)	413	(41)
Other foreign currency	1,220	(122)	1,334	(134)
Total foreign currency investments	$ 6,552	$ (655)	$ 5,756	$ (576)

[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 (2017: 1.1%).

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 5.6% of total investments (2017: 5.9%). Changes in fair value of investments are recognized in the statement of remeasurement gains and losses.

NOTE 4 INVESTMENT RISK MANAGEMENT (in millions) CONTINUED

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 2018	2017
Contracts in net favourable position (current credit exposure)	59	$ 111	$ 89
Contracts in net unfavourable position	20	(239)	(79)
Net fair value of derivative contracts	79	$ (128)	$ 10

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 net favourable position totaling $111 (2017: $89) 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 2018	2017
Structured equity replication derivatives	$ (50)	$ 25
Foreign currency derivatives	(98)	(23)
Interest rate derivatives	17	2
Credit risk derivatives	3	6
Net fair value of derivative contracts	$ (128)	$ 10

i) Structured equity replication derivatives: Equity derivatives 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 derivative. 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, 2018, deposits in futures contracts margin accounts totalled $30 (2017: $16) and deposits as collateral for derivative contracts totalled $10 (2017: $4).

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	
	2018	2017
Accumulated net income	$ 42,565	$ 40,778
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	(42,770)	(40,983)
Amount Retained in the Fund	3,561	3,331
	(39,209)	(37,652)
Capital Expenditures (1976-1995) [(c)]	(3,486)	(3,486)
Other Statutory Transfers [(d)]	(255)	(255)
	(42,950)	(41,393)
Accumulated surplus from operations	15,582	15,352
Accumulated remeasurement gains	1,844	2,131
Carrying value of net financial assets	$ 17,426	$ 17,483

(a) Section 9.1 of the Act and Section 4(5) of the *Access to the Future Act* provides that up to $3,000 may be transferred from the GRF to the Fund (see Note 6 (ii)).

(b) During the year, the Fund earned net income of $1,787, of which $230 was retained in the Fund and $1,557 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:

	2018	2017
Balance, beginning of year	$ 1,460	$ 1,319
Rate of return adjustment	124	141
Balance, end of year	$ 1,584	$ 1,460

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 $3,000 can be allocated to the account from within the Fund of which $750 has been allocated in 2005-06 and $250 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*). The last transfer to the Access to the Future Fund was made in 2014-15.

NOTE 7 INVESTMENT INCOME (in millions)

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

	2018	2017
Interest-bearing securities	$ 127	$ 226
Equities		
Canadian	101	160
Global	826	1,264
Private	140	195
	1,067	1,619
Inflation sensitive		
Real estate	357	434
Infrastructure	250	164
Timberland	71	38
	678	636
Strategic, tactical and currency investments	54	(14)
	$ 1,926	$ 2,467

The investment income includes realized gains and losses from disposal of pool units totalling $313 (2017: $598) and from directly held foreign exchange contracts totalling ($1) (2017: $4). Income distributions from the pools total $1,614 (2017: $1,865).

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)

	2018	2017
Amount charged by AIMCo for:		
Investment costs [(a)]	$ 109	$ 107
Performance based fees [(a)]	30	27
Total investment expenses	$ 139	$ 134
Increase (decrease) in expenses	3.7%	(10.7%)
Decrease in average investments under management	(0.9%)	0.0%
Increase in value of investments attributed to AIMCo	1.4%	0.6%
Investment expense as a percent of:		
Dollar earned	7.2%	5.4%
Dollar invested	0.8%	0.7%

(a) Investment expenses are charged by AIMCo on a cost recovery basis. 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 $115 thousand (2017: $118 thousand) charged to the Fund by Alberta Treasury Board and Finance for investment accounting and reporting services and $55 thousand (2017: $54 thousand) 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)]	**2018**	**2017**	**5 years** [(d)]	**10 years**
Net return on investments [(b)]	8.5%	10.7%	10.4%	7.7%
Policy benchmark return [(b)]	7.1%	10.1%	9.5%	7.2%
Value added by AIMCo [(c)]	1.4%	0.6%	0.9%	0.5%

(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 1.6%, bringing the five-year annualized Portfolio Return Expectation to 7.1%.

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.

Alberta