Alberta Heritage Savings Trust Fund

2020–21 Annual Report

Heritage Fund

Alberta

Alberta Heritage Savings Trust Fund Annual Report 2020-21
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Highlights

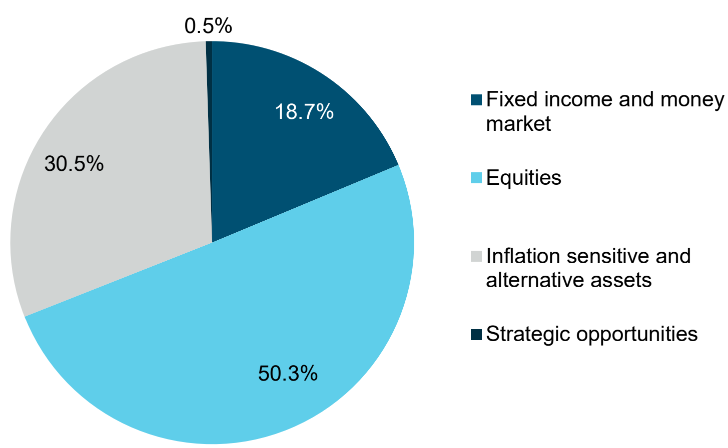
16.1% (net of fees)

1 year Rate of return

$17.8 billion

Fair value of net assets

ASSET MIX AS AT MARCH 31, 2021



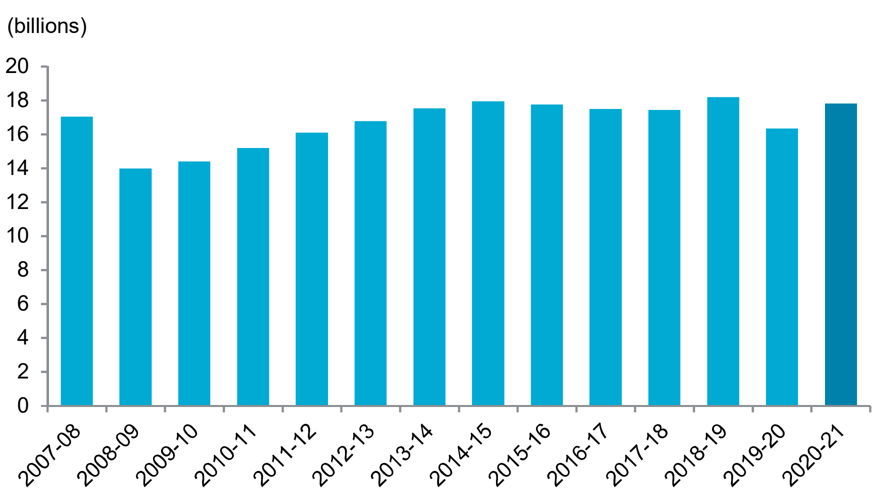
8.9% net of fees

10 year annualized rate of return

$1,208 million

Investment income transferred to general revenue fund

MARKET VALUE AT MARCH 31, 2021



$146 million

Investment income retained for inflation-proofing

$46.2 billion

Cumulative transfers to general revenue fund since inception

Contents

Message from the President of Treasury Board and Minister of Finance

Over the 2020-21 fiscal year, the fair value of the Alberta Heritage Savings Trust Fund rebounded from $16.3 billion to $17.8 billion. This was due to the strong performance of public markets as the year progressed, as well as a patient and prudent management approach that was focused on preserving the Fund over the long-term. Despite the lingering effects of COVID-19, the Fund generated a return of 16.1 per cent. This was 0.6 per cent higher than the benchmark.

The Alberta Heritage Savings Trust Fund will continue to be a vital asset as Alberta works to grow our economy and recover from the impacts of the pandemic. For decades, the Fund has supported important programs, services and infrastructure. The government is focused on ensuring this Fund, a source of pride and security in Alberta, continues to benefit all those who live here.

As the President of Treasury Board and Minister of Finance, I am determined to increase Alberta's global competitiveness, support job creation and ensure the most efficient use of government resources and taxpayer dollars. The government's investment mandate for the Alberta Heritage Savings Trust Fund will continue to balance risks and returns with a focus on long-term success.

[Original signed by Travis Toews]

Honourable Travis Toews
President of Treasury Board and Minister of Finance

About the Heritage Fund

1976	1982	1987	1995	1997
Inception of Heritage Fund	Natural resource revenue transfers cut to 15 per cent from 30 per cent	Natural resource revenue transfers halted	Government surveys Albertans on Fund's future. Survey results show Albertans strongly in favour of a Fund that generates long-term returns	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 (the "Heritage Fund" or "Fund") is Alberta's primary long-term savings fund. It was originally established to collect a portion of Alberta's non-renewable resource revenue and invest this revenue for future generations.

When was the Heritage Fund established?

The Fund was created in 1976. Initially, 30 per cent of Alberta's non-renewable resource revenues were deposited into the Fund. During difficult financial times in the 1980s, this percentage was reduced to 15 per cent in 1982. These deposits were halted in 1987.

What is the objective when investing in the Heritage Fund?

The *Alberta Heritage Savings Trust Fund Act* requires that the Fund be invested with the objective of maximizing long-term financial returns. Investments by the Fund are to be managed prudently to avoid an undue risk of loss and to obtain a reasonable return that will enable the Fund to meet its objective.

What happens to the income earned in the Heritage Fund?

The *Alberta Heritage Savings Trust Fund Act* requires that a portion of the Fund's investment earnings is retained by the Fund to protect against inflation. The remaining earnings are transferred to the Province's main bank account, the General Revenue Fund. All income of the Fund is reported as investment income in the Province's consolidated financial statements.

During the 2020-21 fiscal year, the Fund had investment earnings of $1.35 billion, of which $146 million was retained in the Fund for inflation-proofing and $1.21 billion was transferred to the General Revenue Fund.

What is the Heritage Fund worth today?

The net financial assets of the Fund were valued at $17.8 billion as of March 31, 2021, an increase of $1.5 billion from March 31, 2020.

2006	2007	2016	2020
Legislated inflation-proofing begins: $384 million retained in fiscal 2006	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	Alberta Growth Mandate introduced	Alberta Growth Mandate Eliminated

Who is responsible for the Heritage Fund?

The President of Treasury Board and Minister of Finance is responsible for the Fund. The Department of Treasury Board and Finance supports the Minister in developing the long-term strategy and investment policy for the Fund and monitoring the Fund's investment performance. The Alberta Investment Management Corporation is responsible for investing the Fund's assets as set out in the Fund's investment policy.

The performance of the Fund is reported by the President of Treasury Board and Minister of Finance to Albertans on a quarterly and annual basis. Prior to its release, the annual report is approved by the Standing Committee on the Alberta Heritage Savings Trust Fund.

Are the Heritage Fund's investments secure?

The Fund is invested in a global portfolio comprised of a wide variety of investments, including equities, fixed income and real assets. These investments have varying levels of risk which can lead to significant year-over-year variations in the value and earnings of the Fund. However, in order to meet its objective, assuming some investment risk is required. The Fund reduces the risk of loss by investing globally and across many asset classes.

How has the Heritage Fund performed?

In the past ten years, the Fund has earned an annualized return of 8.9 per cent and has grown from $15.2 billion to $17.8 billion. During this period, the Fund has produced $14.9 billion in investment income, of which $12.4 billion has been used to help support the government's financial and budget priorities while $2.5 billion was retained in the Fund for inflation-proofing.

Heritage Fund governance

The Fund operates under the authority of the *Alberta Heritage Savings Trust Fund Act* (the “Act”). The Act’s preamble establishes the mission of the Fund, which is “… to provide prudent stewardship of the savings from Alberta’s non-renewable resources by providing the greatest financial returns on those savings for current and future generations of Albertans.”

The President of Treasury Board and Minister of Finance (the “Minister”) is responsible for holding, managing and investing the Fund in accordance with the Act. Section 3 of the Act requires that “... investments of the Fund must be made with the objective of maximizing long-term financial returns.” Section 3 also requires that “… the Minister shall adhere to investment and lending policies, standards and procedures that a reasonable and prudent person would apply in respect of a portfolio of investments to avoid undue risk of loss and obtain a reasonable return that will enable the Heritage Fund to meet its objectives.”

The Minister is supported by the Department of Treasury Board and Finance and the Alberta Investment Management Corporation (“AIMCo”) in carrying out the responsibilities set out in the Act. The Department provides support by developing and evaluating potential investment policies and asset allocations for the Fund, monitoring the investment performance of the Fund and preparing annual and quarterly reports for the Fund. AIMCo is responsible for managing the investments of the Fund in accordance with the Fund’s Statement of Investment Policies and Goals.

The Act also established a multi-party standing committee of the Legislative Assembly. Under the Act, the Standing Committee on the Alberta Heritage Savings Trust Fund is responsible for reviewing quarterly reports and approving the annual report for the Fund. It is also required to review the performance of the Fund on an annual basis and provide a report to the Legislature as to whether the Fund’s mission is being fulfilled.

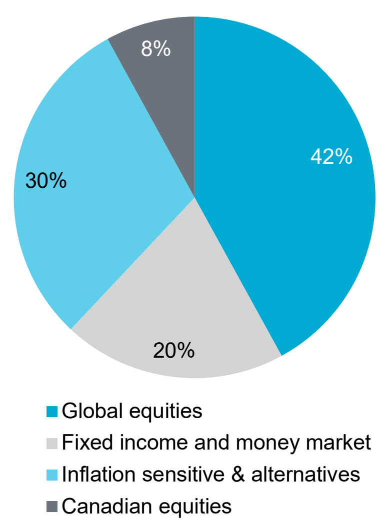
Portfolio construction

- Proper construction of the Fund's investment portfolio is an essential component in achieving the objective of maximizing long-term earnings. Among other things, the Statement of Investment Policies and Goals establishes what asset classes and the Fund is to be invested in and what proportion is allowable for each asset class. The allocation of assets is critical as it is the largest determinant of long-term earnings for any investment portfolio.
- The Fund's current target asset allocation is to have 20 per cent of the portfolio invested in fixed income investments, 30 per cent invested in inflation sensitive and alternative assets and 50 per cent in equity investments. The targets for equity investments are further subdivided into an 8 per cent target for Canadian equities and a 42 per cent target for global equities. The investment policy also has allowable deviations from the targets that allow the asset manager to use its expertise to increase exposure to asset classes that it expects to outperform in the future.
- Fixed income investments have lower risks and returns when compared to other asset classes and help to stabilize the Fund's year-over-year returns. This asset class is dominated by investment in publicly traded bonds. However, investments are also made in private debt, loans and mortgages that provide additional diversification and return generating opportunities within the asset class.
- Inflation sensitive and alternative investments include in real estate, renewable resources and infrastructure assets. Returns on these assets are expected to perform well in inflationary environments, generating income from revenue streams that are closely correlated with inflation. Inflation sensitive and alternative investments have low levels of liquidity as they are not typically traded in public markets. As it is focused on maximizing long-term returns, the Fund is able to invest in assets that are intended to be held for extended periods of time. Inflation sensitive and alternative investments tend to have higher returns and greater risk than fixed income but have lower risks and returns when compared to equity investments.
- Equity investments have the greatest potential for high returns and also have the highest risk among the three asset classes. The equity portfolio focuses primarily on non-Canadian equity investments as Canada has a relatively small pool of equity investments to choose from. A global focus provides access to a greater number of opportunities and lower risk due to additional diversification. The Fund also makes investments in private companies that have strong growth potential. These investment are expected to earn a higher return than public equities but, as with inflation sensitive and alternative investments, private equities are less liquid and are often held for extended periods of time.

Return targets

- The Fund has two return targets: a real return target and an active management target.
- The real return target helps to evaluate whether the Fund's asset allocation is able to produce appropriate real returns over time. The target is to earn a return that is equal to or greater than 4.5 per cent plus inflation over a five-year period.
- The active management target helps to evaluate the investment manager's value added performance over time. Active management of the Fund creates additional risk and, therefore, the Fund's target is that actual returns will be at least 1 per cent higher than the returns of a passive managed portfolio.

LONG-TERM TARGET POLICY ASSET MIX



The 2020-21 fiscal year in review

At the end of the 2019-20 fiscal year, the impact of the pandemic was difficult to predict and global equity markets fell significantly in March 2020 after reaching record levels in mid-February 2020. However, the equity market rebounded as central banks responded quickly with actions that caused interest rates to fall dramatically while governments also injected large amounts of stimulus into the economy. Global equity markets fully rebounded by autumn 2020 and were trading near new record highs by the end of the Fund's fiscal year.

The Fund had a strong year, posting an overall return of 16.1 per cent in 2020-21. Leading the way were the Fund's equities with a 37.9 per cent return of during the year. Fixed income investments provided a 4.8 per cent return due to declining interest rates. However, the inflation sensitive and alternatives asset class had a difficult year, posting a return of negative 7.8 per cent.

Over the past five years, the Fund has earned an annualized return of 7.4 per cent. The highest performance came from equities with an 10.2 per cent return during the period. The five-year annualized return on inflation sensitive and infrastructure assets was 4.3 per cent and the fixed income return was 3.9 per cent.

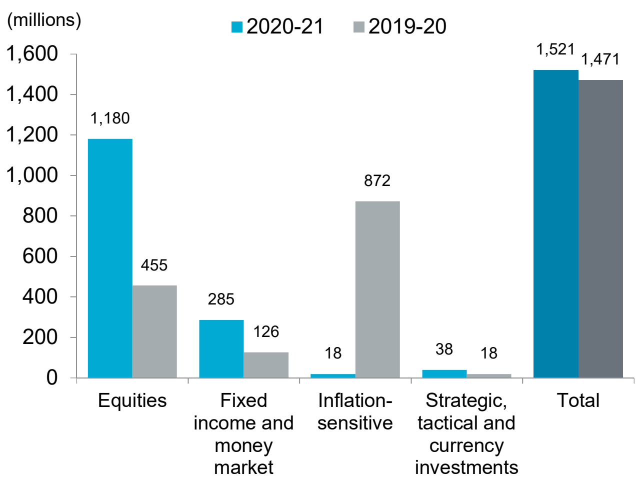
Investment income

Investment earnings from the Fund during the year totaled $1,354 million, based on gross earnings of $1,521 million less investment expenses of $167 million. These earnings were $291 million higher than what was estimated in *Budget 2020* and $36 million higher than in 2019-20.

Equity investments produced earnings of $1,180 million during 2020-21, an increase of $725 million over the previous year. Earnings from fixed income investments grew by $159 million during the year to $285 million. Inflation sensitive and alternative investments provided $18 million in earnings, a decrease of $854 million from the results in 2019-20. Finally, strategic investments contributed earnings of $38 million, $20 million higher than the previous year.

The Fund retained $146 million of its earnings for inflation proofing, which was based on the Alberta Consumer Price Index increase of 1.0 per cent during the year. The remaining $1,208 million was transferred to the Province's General Revenue Fund.

INVESTMENT INCOME BY ASSET CLASS



Transfers and inflation

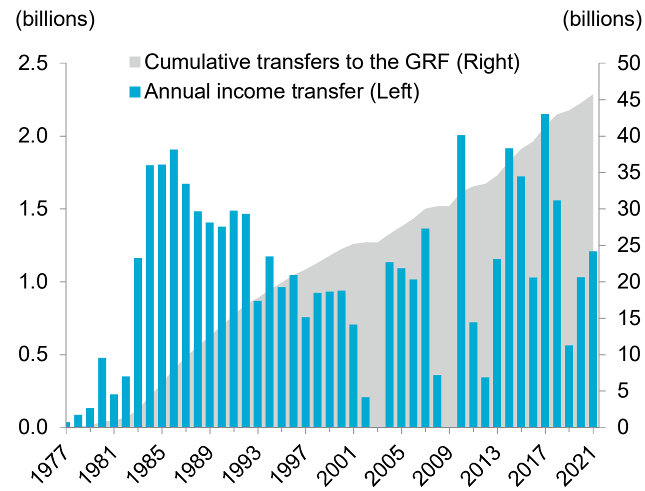
Since the Fund was established in 1976, it has received deposits of $12.0 billion from non-renewable resource revenues and $3.9 billion from budget surpluses in 2005-06 to 2007-08. During that time, the Fund has produced $46.2 billion in investment earnings.

The Fund has been used pay for capital projects, to seed other endowments and for government priorities through transfers to the General Revenue Fund. Between 1976 and 1995, $3.0 billion was used to pay for capital projects and $655 million was transferred to Provincial endowment funds.

Income transfers from the Fund to the General Revenue Fund began in 1982-83 and since then, transfer to it have totaled $42.0 billion. Earnings of $4.4 billion have been retained in the Fund for inflation proofing.

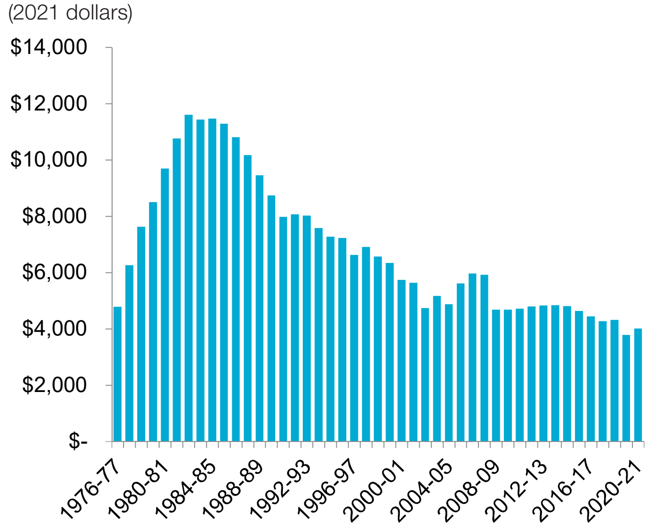
The Fund's market value per capita has declined significantly since peaking in 1983 when the value of the Fund was about $11,600 per Albertan. As of the end of 2020-21, the market value is about $4,000 per Albertan. This decrease has been caused by three factors. First, deposits into the Fund were decreased early in the 1980s and eliminated in 1987. Secondly, most of the Fund's earnings have been transferred out of the Fund and used to pay for government priorities. Finally, Alberta's population has more than doubled since 1976, growing from approximately 1.9 million people to over 4.4 million people.

INCOME AND CUMULATIVE TRANSFER TO GRF



MARKET VALUE INFLATION ADJUSTED PER CAPITA

(2021 dollars)



Investment expenses

The Fund's investment expenses were $167 million during the 2020-21 fiscal year, $14 million higher than the previous year and $52 million above the Budget 2020 estimate. The increase in fees was due primarily to performance fees that resulted from the strong, value added returns produced during the year.

INVESTMENT EXPENSES

(millions)	2021	2020
Total investment expenses	$167	$153
Increase/decrease in average investments	1.0%	-2.6%
Investment expense per dollar invested	0.9%	0.9%

Asset mix

The Fund's asset allocation at the end of the fiscal year were relatively close to the target asset allocation. Equities hold the largest weight in the portfolio at 50.3 per cent, an increase from 44.8 per cent at the end of last year. During the year, the proportion of fixed income investments declined slightly to 18.7 per cent from 19.5 per cent while inflation sensitive and alternative investments decreased from 34.9 per cent to 30.5 per cent. Strategic opportunities, which are investments that do not fit directly into any of the asset classes, decreased to 0.5 per cent from 0.8 per cent of the portfolio.

The asset manager has been given a mandate to overweight asset classes that they believe will generate higher value over the long-term. However, the large shifts in asset class weights was primarily due to a combination of very strong equity returns that caused the value of equities to increase significantly and the negative returns that caused a decline in the value of the inflation sensitive and alternative investments held by the Fund.

ASSET MIX (LONG-TERM TARGET ASSET MIX)

	March 2021	March 2020	Policy range
Fixed income and money market (20%)	**18.7%**	**19.5%**	**15-45%**
Deposits and short-term	0.5%	0.4%	0-25%
Bonds and mortgages	18.1%	19.1%	10-35%
Inflation-sensitive and alternative investments (30%)	**30.5%**	**34.9%**	**15-40%**
Real estate	19.1%	21.0%	10-20%
Infrastructure	9.0%	11.2%	5-15%
Renewable resources	2.4%	2.7%	0-5%
Equities (50%)	**50.3%**	**44.8%**	**35-70%**
Canadian	8.4%	7.4%	5-15%
Global developed	28.7%	25.1%	20-65%
Emerging markets	4.5%	3.5%	0-10%
Private	8.7%	8.8%	0-10%
Strategic opportunities	**0.5%**	**0.8%**	**0-5%**

Investment performance

Over the past five years, the Fund has earned an annualized return of 7.4 per cent, and over the last ten years it has earned 8.9 per cent. During 2020-21, the Fund's return was 16.1 per cent.

As previously discussed the Fund has a real return target and an active management target. The real return target is to earn an after-inflation, or real, return of 4.5 per cent over a five-year period. Over the last five years, inflation, as measured by the Canadian Consumer Price Index, was 1.6 per cent. This results in a return target of 6.1 per cent. The five-year actual return of 7.4 per cent exceeds this objective by 1.3 per cent.

The second target is to earn, over five years, a return from active management that is 1.0 per cent above what a passive portfolio would have earned. Over the last five years, the annualized return from active management was negative 0.6 per cent, 1.6 per cent lower than the objective.

TOTAL FUND PERFORMANCE

	2020-21	2019-20	5 Year	10 Year
Fund rate of return	**16.1**	**(5.1)**	**7.4**	**8.9**
Real return target - CPI + 4.5	6.3	6.3	6.1	6.5
Return above (below) target	**9.8**	**(11.4)**	**1.3**	**2.4**
Passive benchmark return	15.5	0.8	8.0	8.6
Active management return	**0.6**	**(5.9)**	**(0.6)**	**0.3**

ASSET CLASS RETURN VERSUS BENCHMARK

	1 Year Return	1 Year Benchmark	5 Year Return	5 Year Benchmark
Fixed income	**4.8**	**2.3**	**3.9**	**3.0**
Inflation sensitive and alternative investments	**(7.8)**	**0.9**	**4.3**	**5.5**
Real estate	(9.3)	(2.4)	2.7	5.1
Infrastructure	(5.1)	6.3	5.7	6.1
Renewable resources	(5.3)	6.3	11.4	6.1
Equities	**37.9**	**32.6**	**10.2**	**11.5**
Canadian	50.4	44.2	8.0	10.1
Global	43.3	36.5	12.0	12.6
Private	23.7	8.3	7.4	8.1

Equities

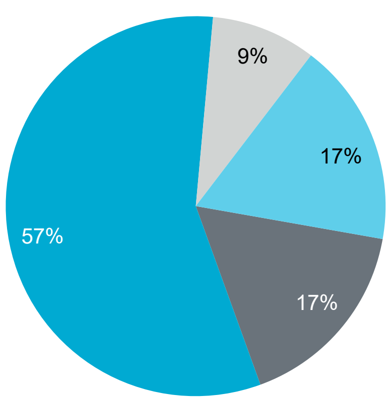
Global equities performed well in 2020-21 due to the ongoing success of vaccine programs and the injection of significant amounts of fiscal stimulus by governments. Investments in the equities asset class grew during the year by $1.8 billion to $9.4 billion, primarily because of the strong returns earned by the equity asset class. The Fund's equity investments delivered a 37.9 per cent during 2020-21 which is 5.3 per cent higher than its benchmark return of 32.9 per cent. During the past five years, equity investments have earned an annualized return of 10.2 per cent, 1.3 per cent lower than the benchmark return.

The Fund's Canadian equity portfolio earned a return of 50.3 per cent during the year, surpassing the benchmark return of 44.2 per cent by 6.2 per cent. Over five years, Canadian equities have returned 8.0 per cent, which is 2.1 per cent lower than the 10.1 per cent return on the benchmark.

The global equity portfolio posted a 43.3 per cent return for the fiscal year, surpassing the benchmark return of 36.5 per cent by 6.8 per cent. In the last five years, the return on global equities has been 12.0 per cent, 0.6 per cent lower than the benchmark return of 12.6 per cent.

The private equity portfolio is comprised of a variety of domestic and foreign investments that include providing capital for expansions and acquisitions, management buyouts, turnaround financing, project financing and leverage reductions. While not as strong as public equity returns, the private equity portfolio earned a solid return of 23.7 per cent for the fiscal year, 15.1 per cent higher than the benchmark return of 8.6 per cent. Private equities have produced a return of 7.4 per cent in the last five years, 0.7 per cent lower than the 8.1 per cent return on its benchmark.

EQUITIES



TOP 10 CANADIAN PUBLIC EQUITY HOLDINGS
As at March 31, 2021

Holding	Weight (%)	$ in Millions
Royal Bank of Canada	5.9%	$91.3
Toronto-Dominion Bank/The	4.1%	$64.0
Enbridge Inc	3.3%	$51.9
TC Energy Corp	3.2%	$50.1
Canadian National Railway Co	2.7%	$41.1
Bank of Nova Scotia/The	2.4%	$37.8
Shopify Inc	2.4%	$37.6
Canadian Pacific Railway Ltd	2.4%	$36.6
Brookfield Asset Management Inc	2.2%	$33.8
Barrick Gold Corp	2.1%	$32.9
Total – Top 10 Holdings	30.8%	$477.1

TOP 10 GLOBAL PUBLIC EQUITY HOLDINGS
As at March 31, 2021

Name	Weight (%)	$ in Millions
Microsoft Corp	3.0%	$148.8
Apple Inc	2.3%	$116.0
Amazon.com Inc	1.8%	$89.4
Alphabet Inc	1.7%	$87.5
Facebook Inc	1.0%	$51.2
Roche Holding AG	1.0%	$48.7
Johnson & Johnson	0.9%	$45.3
Berkshire Hathaway Inc	0.8%	$42.0
Visa Inc	0.8%	$41.4
Nestle SA	0.8%	$39.2
Total – Top 10 Holdings	14.1%	$709.6

TOP 10 PRIVATE EQUITY HOLDINGS
As at March 31, 2021

Name	Sector
Hayward Industries Inc	Consumer Discretionary
Davis Group Ltd	Financial
ERM	Business Services
ThomaBravo XIII	Fund
Ring Partners II	Industrials
Fortitude RE	Industrials
EQT VIII	Industrials
Permira VI	Fund
New Mountain Partners V	Fund
New Mountain IV	Fund

Fixed income

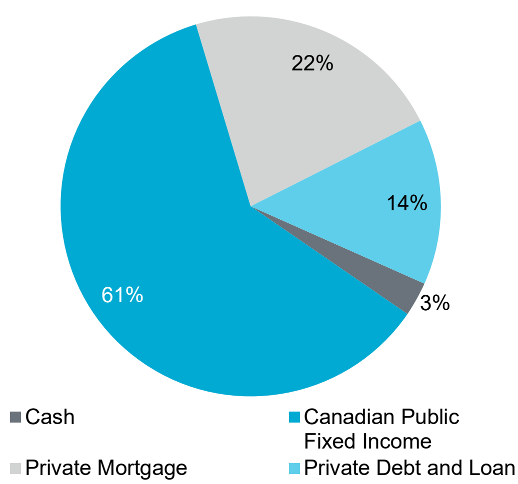
The Fund held $3.5 billion of fixed income investments as of March 31, 2021, an increase of $210 million over the end of the previous year. Fixed income investments are primarily held in publicly traded bonds issued by the federal, provincial and municipal governments as well as bonds issued by corporations. The Fund also makes investments in private mortgages and private debt to increase diversification and to take advantage of superior return opportunities. During the fiscal year, the fixed income portfolio earned a return of 4.8 per cent, 2.5 per cent higher than the return on its benchmark. Over the last five years, a 3.9 per cent return has been produced by the Fund's fixed income investments, outperforming the benchmark return of 3.0 per cent by 0.9 per cent.

The bond portfolio within this asset class earned a 5.5 per cent return for the fiscal year, 1.6 per cent higher than the 3.9 per cent return on the benchmark. The five-year return on bond investments of 3.9 per cent is 1.1 per cent higher than the benchmark return.

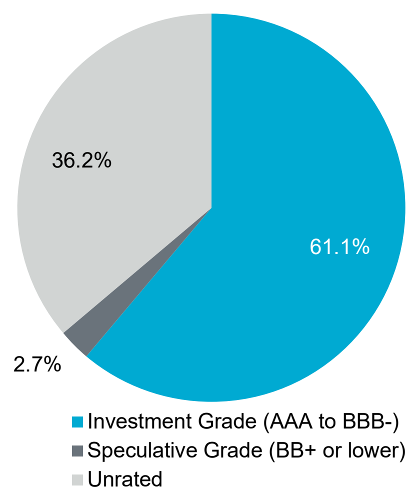
Private mortgage investments are included in the portfolio to diversify credit exposure and increase yields. The fiscal year return for private mortgages was 5.4 per cent, 0.9 per cent higher than the benchmark. During the past five years, private mortgages have earned a return of 4.5 per cent, outperforming the benchmark return of 3.5 per cent by 1.0 per cent.

Investments in private debt and loans consists of specialty loans and financing for corporations that do not meet the requirements of other financing structures and methods. These investments also provide opportunities to diversify the portfolio. In 2020-21, private debt and loans earned a return of 6.0 per cent which was 4.4 per cent higher than the benchmark returns. The private debt and loan portfolio has produced returns of 4.3 per cent over the past five years, 1.5 per cent higher than the benchmark return of 2.8 per cent.

FIXED INCOME



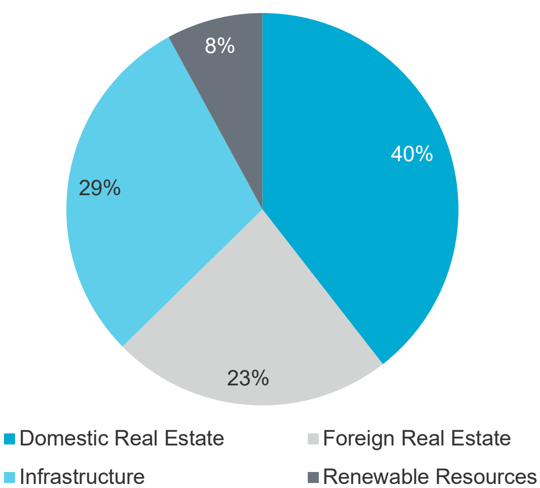
RATINGS



Inflation sensitive and alternative investments

The inflation sensitive and alternative investments portfolio includes a variety of investments, including real estate, renewable resources and infrastructure assets. At the end of the fiscal year, $5.7 billion of the Fund was invested in this asset class, a $179 million decrease from the end of the previous year. Inflation sensitive and alternative investments were hit particularly hard by the pandemic and posted a return of negative 7.8 per cent for the year, 6.9 per cent lower than the benchmark's return of 0.9 per cent. Over the past five years, a 4.3 per cent return has been earned on these investments while the benchmark had a return of 5.5 per cent during the same period.

INFLATION-SENSITIVE



Real estate investments were impacted negatively by the pandemic due primarily from large restrictions on movement imposed by various governments throughout the world, causing many people to work from their homes and many businesses to close. Real estate investments had a return of negative 7.8 per cent during the year compared to a return on the real estate benchmark of negative 2.4 per cent. During the last five years, the real estate portfolio has produced returns of 2.7 per cent. This return is 2.4 per cent lower than the five-year benchmark return of 5.1 per cent.

TOP 10 DOMESTIC REAL ESTATE HOLDINGS
As at March 31, 2021

Property	Sector	Location
Yorkdale Shopping Centre	Retail	Ontario
Square One Shopping Centre	Retail	Ontario
Scotia Plaza	Office	Ontario
CF Richmond Centre	Retail	BC
Scarborough Town Centre	Retail	Ontario
Urbacon DC7	Industrial	Ontario
Edmonton Tower	Office	Alberta
Eighth Avenue Place	Office	Alberta
First Canadian Place	Office	Ontario
Galaxy Portfolio	Residential	Canada
Total - Top 10 Holdings	$1,010.7 (millions)	

TOP 10 FOREIGN REAL ESTATE HOLDINGS
As at March 31, 2021

Property	Sector	Region
Alpine AUR Fund	Industrial	Europe
Ultrabox Logistics UK	Industrial	UK
Docks Bruxsel	Retail	Europe
BORO - Meridian Co-Invest	Office	USA
WPT INDUSTRIAL REIT - Restricted	Equity	USA
EVOQ Los Angeles	Office	USA
Techworld Co-Invest	Office	USA
Whitewood TV City	Residential	UK
Starrett-Lehigh	Office	USA
Energy Square	Office	USA
Total - Top 10 Holdings	$505.5 (millions)	

Renewable resource investments also had a difficult year. The return on the Fund's renewable resource investments was negative 5.3 per cent while the benchmark return was 6.3 per cent, an underperformance of 11.6 per cent. However, the returns over five years compare very well to the benchmark: actual returns over five years were 11.4 per cent, 5.1 per cent higher than the benchmark return of 6.1 per cent.

TOP RENEWABLE RESOURCE HOLDINGS

As at March 31, 2021

Holding	Geography
Forestry Investment Trust	Australia
Australia New Zealand Forest Fund	Australia and New Zealand
Shasta Cascade Timberlands Co Inv	United States
Bonnefield Canadian Farmland LP IV	Canada
Global Timber Investors 8	Australia, New Zealand, and Latin America
Hancock Timberland and Farmland LP	United States
ORM Timber Fund IV LLC	United States
Hancock Timberland and Farmland LP United States	United States

Infrastructure investments include transportation and logistics assets (for example, toll roads and rail), power and energy investments (for example, power generation and transmission as well as pipelines) and utilities (for example, water, waste water and natural gas networks). Similar to other investments in this asset class, the pandemic had a significant, negative impact on infrastructure assets. During the year, these investments returned negative 5.1 per cent, underperforming the benchmark return of 6.3 per cent by 11.4 per cent. Over the past five years, infrastructure investments have earned a return of 5.7 per cent, 0.4 per cent lower than the benchmark return of 6.1 per cent

It should be noted that there are no representative market value benchmarks for investments in renewable resources and in infrastructure. As a result, an absolute return benchmark equal to inflation plus 4.5 per cent is used. This benchmark will almost always have positive returns, making it extremely challenging for returns to meet or exceed the benchmark during difficult years. As a result, evaluations of investment returns versus a real return benchmark over a single year can be very misleading.

TOP INFRASTRUCTURE HOLDINGS

As at March 31, 2021

Company	Sector	Geography
Puget Energy Inc.	Integrated Utilities	United States
Howard Midstream Energy	Pipelines & Midstream	United States
sPower	Renewable Energy	United States
London City Airport	Transportation	United Kingdom
Macquarie Asia Infrastructure Fund II	Fund	Asia
SAESA Group	Integrated Utilities	Chile
Porterbrook	Transportation	United Kingdom
Catalyst InvestCo LLC	Pipelines & Mainstream	United States

Currency exposure

The Fund invests in a globally diversified portfolio, but a majority of its assets remain denominated in Canadian dollars. Canadian dollar investments amounted to 61.0 per cent of the Fund at March 31, 2021, which is 4.0 per cent lower than last year. The remainder of the assets are invested in over 30 other currencies, including U.S. dollars, Euros, Japanese yen, and British pounds. The Fund's largest foreign currency exposure is to the U.S. dollar at 21.0 per cent. Exposure to foreign investments and currencies has been beneficial for the Fund in recent years, as global investments and currencies have consistently outperformed Canadian investments. This has resulted in higher Fund returns compared to what returns would have been if the Fund had been restricted to investing in Canadian dollars only.

CURRENCY EXPOSURE

As at March 31, 2021

	2021	2020
Canadian Dollar	61.5%	65.0%
US Dollar	20.3%	17.9%
Euro	5.5%	5.0%
British Pound	2.2%	3.0%
Japanese Yen	3.8%	2.3%
Other	6.82%	6.8%
Total	100.0%	100.0%

Alberta exposure

The Fund has roughly $1.5 billion invested in Alberta, including various properties located in Alberta and securities issued by public companies headquartered in the province. Sector exposures primarily include real estate, oil and gas, renewable energy and agriculture. These investments do not include businesses that have a significant economic presence in Alberta but are headquartered elsewhere.

ALBERTA EXPOSURE
As at March 31, 2021

Asset class	Market value (millions)
Real estate	$580.2
Equity	$270.6
Mortgages	$111.8
Private equity	$1.9
Fixed Income	$364.1
Total	$1,328.6

Historical summary of operations

May 19, 1976 to March 31, 2021

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

Fiscal year	Net income (loss)[1]	Transfers to the Fund			Transfers from the Fund			Fund equity (at cost)	Income retained for inflation proofing
		Resource revenue allocation	Deposits	Advanced education endowment[2]	Investment income transfers[3]	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	1,046	-	-	-	(1,046)	-	-	11,826	-
1996-97	932	-	-	-	(756)	-	-	12,002	176
1997-98	947	-	-	-	(922)	-	-	12,027	25
1998-99	932	-	-	-	(932)	-	-	12,027	-
1999-00	1,169	-	-	-	(939)	-	-	12,257	230
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	-

Fiscal year	Net income (loss)[1]	Transfers to the Fund			Transfers from the Fund			Fund equity (at cost)	Income retained for inflation proofing
		Resource revenue allocation	Deposits	Advanced education endowment [2]	Investment income transfers [3]	Capital project expenditures	Other transfers		
2005-06	1,397	-	1,000	750	(1,015)	-	-	13,495	382
2006-07	1,648	-	1,000	250	(1,365)	-	-	15,028	283
2007-08	824	-	918	-	(358)	-	-	16,412	466
2008-09	(2,574)	-	-	-	-	-	-	13,838	-
2009-10	2,006	-	-	-	(2,006)	-	-	13,838	-
2010-11	1,080	-	-	-	(720)	-	-	14,198	360
2011-12	798	-	-	-	(344)	-	-	14,652	454
2012-13	1,316	-	-	-	(1,155)	-	-	14,813	161
2013-14	2,109	-	-	-	(1,916)	-	-	15,006	193
2014-15	1,678	-	-	-	(1,468)	-	(255)	14,961	210
2015-16	1,238	-	-	-	(1,029)	-	-	15,170	209
2016-17	2,333	-	-	-	(2,151)	-	-	15,352	182
2017-18	1,787	-	-	-	(1,557)	-	-	15,582	230
2018-19	937	-	-	-	(563)	-	-	15,956	374
2019-20	1,318	-	-	-	(1,031)	-	-	16,243	287
2020-21	1,354	-	-	-	(1,208)	-	-	16,389	146
Totals	46,174	12,049	2,918	1,000	(42,011)	(3,486)	(255)	550,065	4,368

1. The income of the Fund and its assets and liabilities, net of consolidation adjustments, is included in the consolidated financial statements of the President of Treasury Board and Minister of Finance and the Government of Alberta
2. The Access to the Future Act, which was rescinded in 2019, allowed for a maximum of $3 billion to be transferred into the Fund to support the advanced education endowment.
3. 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 protect its value from inflation, shall be transferred to the General Revenue Fund, annually in a manner determined by the President of Treasury Board and Minister of Finance.

Annual Financial Statements

Alberta Heritage Savings Trust Fund
March 31, 2021

Auditor General OF ALBERTA

Independent Auditor's Report

To the President of Treasury Board and Minister of Finance

Report on the Financial Statements

Opinion

I have audited the financial statements of Alberta Heritage Savings Trust Fund (the Fund), which comprise the statement of financial position as at March 31, 2021, 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 notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 2021, 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.

Basis for opinion

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Fund in accordance with the ethical requirements that are relevant to my audit of the financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Other information

Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the financial statements and my auditor's report thereon. The Annual Report is expected to be made available to me after the date of this auditor's report.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I will perform on this other information, I conclude that there is a material misstatement of this other information, I am required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the 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 the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless an intention exists to liquidate or to cease operations, or there is no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

[Original signed by W. Doug Wylie FCPA, FCMA, ICD.D]
Auditor General

June 8, 2021
Edmonton, Alberta

Statement of Financial Position

As at March 31, 2021

(in millions)

		2021		2020
Financial assets				
Investments (Note 3)	$	18,546	$	16,702
Receivable from sale of investments		13		-
		18,559		16,702
Liabilities				
Due to the General Revenue Fund		742		374
Payable from purchase of investments		14		-
		756		374
Net financial assets	$	17,803	$	16,328
Net financial assets (Note 5)				
Accumulated operating surplus	$	16,389	$	16,243
Accumulated remeasurement gains		1,414		85
	$	17,803	$	16,328

Statement of Change in Net Financial Assets

Year Ended March 31, 2021

(in millions)

	2021				2020	
	Budget		Actual		Actual	
Net surplus retained in the Fund	$	325	$	146	$	287
Net remeasurement gains (losses)				1,329		(2,205)
Increase (decrease) in net financial assets				**1,475**		**(1,918)**
Net financial assets, beginning of year				16,328		18,246
Net financial assets, end of year			$	17,803	$	16,328

The accompanying notes are part of these financial statements.

Statement of Operations and Accumulated Surplus

Year Ended March 31, 2021

(in millions)

	2021 Budget	2021 Actual	2020 Actual
Investment income (Note 6)	$ 1,178	$ 1,521	$ 1,471
Investment expenses (Note 7)	(115)	(167)	(153)
Net income from operations	1,063	1,354	1,318
Transfers to the General Revenue Fund (Note 5b)	(738)	(1,208)	(1,031)
Net surplus retained in the Fund (Note 5b)	**$ 325**	**146**	**287**
Accumulated operating surplus, beginning of year		16,243	15,956
Accumulated operating surplus, end of year		$ 16,389	$ 16,243

Statement of Remeasurement Gains and Losses

Year Ended March 31, 2021

(in millions)

	2021	2020
Unrealized gains (losses) on investments	$ 1,307	$ (1,802)
Less: Amounts reclassified to the Statement of Operations - realized losses (gains) on investments	22	(403)
Net remeasurement gains (losses)	**1,329**	**(2,205)**
Accumulated remeasurement gains, beginning of year	85	2,290
Accumulated remeasurement gains, end of year	$ 1,414	$ 85

The accompanying notes are part of these financial statements.

Statement of Cash Flows

Year Ended March 31, 2021

(in millions)

	2021	2020
Operating transactions		
Net income from operations	$ 1,354	$ 1,318
Non-cash items included in net income	22	(403)
	1,376	915
(Increase) decrease in accounts receivable	(13)	10
Increase (decrease) in accounts payable	14	(14)
Cash provided by operating transactions	1,377	911
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	2,809	3,349
Purchase of investments	(3,313)	(3,708)
Cash applied to investing transactions	(504)	(359)
Transfers		
Transfers to the General Revenue Fund	(1,208)	(1,031)
Increase in amounts due to the General Revenue Fund	368	441
Cash applied to transfers	(840)	(590)
Increase (decrease) in cash	33	(38)
Cash at beginning of year	68	106
Cash at end of year	$ 101	$ 68
Consisting of Deposits in the Consolidated Cash Investment Trust Fund (CCITF) *	$ 101	$ 68

* The CCITF is a highly-liquid, short term money market pooled fund consisting primarily (100%) 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, 2021

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 04/2016, 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 Alberta Investment Management Corporation (AIMCo), a Crown corporation within the Ministry of Treasury Board and Finance, 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. 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 year.

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.

Impairment in the value of investments is assessed on a periodic basis. If an impairment deemed other-than-temporary is identified, the cost of the investment is written down to its realizable value. Any impairment losses are included in income on the statement of operations and accumulated surplus.

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 6). 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 7). 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 and losses primarily represent the excess or shortfall 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, renewable resources, 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.

As a result of the COVID-19 outbreak, declared a global pandemic on March 11, 2020, global financial markets and world economies have experienced significant volatility. Given the extent of the crisis, and varying levels of response and recovery of countries across the globe, additional uncertainty remains and will continue to exist with regards to fair value measurement of the Fund's 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)).

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 and 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 2	Level 3	**2021**	**2020**
Interest-bearing securities				
Deposits in CCITF	$ 101	$ -	$ 101	$ 68
Bonds, mortgages and private debt	2,105	1,259	3,364	3,187
	2,206	1,259	3,465	3,255
Equities				
Canadian	1,555	-	1,555	1,225
Global developed	5,034	281	5,315	4,198
Emerging markets	833	-	833	576
Private	-	1,622	1,622	1,478
	7,422	1,903	9,325	7,477
Inflation sensitive				
Real estate	-	3,543	3,543	3,509
Infrastructure	-	1,662	1,662	1,879
Renewable resources	-	449	449	445
	-	5,654	5,654	5,833
Strategic, tactical and currency investments *	21	81	102	137
Total Fair Value of Investments	$ 9,649	$ 8,897	$ 18,546	$ 16,702

* 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. Although the pools may ultimately hold publicly traded listed equity investments, the pool units themselves are not listed in an active market and therefore cannot be classified as Level 1 for fair value hierarchy purposes. Pool units classified by the Fund as Level 2 may contain investments that might otherwise be classified as Level 1.
- ***Level 2*** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes pool units that hold public equities, debt securities and derivative contracts totalling $9,649 (2020: $7,822).
- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes pool units that hold private mortgages, hedge funds, private equities and all inflation sensitive investments totalling $8,897 (2020: $8,880).

NOTE 3 INVESTMENTS (in millions) CONTINUED

Reconciliation of Level 3 Investments

	2021	2020
Balance, beginning of year	$ 8,880	$ 9,839
Unrealized losses	(199)	(370)
Purchases of Level 3 pooled fund units	1,204	1,444
Sale of Level 3 pooled fund units	(988)	(2,033)
Balance, end of year	$ 8,897	$ 8,880

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 are 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 renewable resources 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 are valued based on differences between contractual foreign exchange rates and foreign exchange forward rates. 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 and Minister of Finance has approved the following target policy asset mix:

Asset Class	**Target Policy Asset Mix**	**Actual Asset Mix 2021**		**Actual Asset Mix 2020**	
Interest-bearing securities	15 - 45%	$ 3,465	18.7%	$ 3,255	19.5%
Equities	35 - 70%	9,325	50.3%	7,477	44.8%
Inflation sensitive	15 - 40%	5,654	30.5%	5,833	34.9%
Strategic, tactical and currency investments	(a)	102	0.5%	137	0.8%
		$ 18,546	100.0%	$ 16,702	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. Unrated debt securities consist primarily of mortgages and private debt placements.

The table below summarizes the Fund's investment in debt securities by credit rating at March 31, 2021:

Credit rating	2021	2020
Investment Grade (AAA to BBB-)	61.1%	70.2%
Speculative Grade (BB+ or lower)	2.7%	0.7%
Unrated	36.2%	29.1%
	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.

NOTE 4 INVESTMENT RISK MANAGEMENT (in millions) CONTINUED

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, 2021, the Fund's share of securities loaned under this program is $322 (2020: $241) and collateral held totals $344 (2020: $258). 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 39% (2020: 35%) of the Fund's investments, or $7,273 (2020: $5,900), are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar, 21% (2020: 18%) and the Euro, 6% (2020: 5%).

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 3.9% of total investments (2020: 3.5%).

The following table summarizes the Fund's exposure to foreign currency investments held in the pools at March 31, 2021:

	2021		2020	
Currency [a]	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 3,881	$ (388)	$ 3,020	$ (302)
Euro	1,048	(105)	843	(84)
British pound sterling	696	(69)	498	(50)
Japanese yen	397	(40)	393	(40)
Hong Kong dollar	220	(22)	173	(17)
Other foreign currency	1,031	(103)	973	(97)
Total foreign currency investments	$ 7,273	$ (727)	$ 5,900	$ (590)

[a] Information on specific currencies is disclosed when the current period 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 1.0% of total investments (2020: 0.9%).

NOTE 4 INVESTMENT RISK MANAGEMENT (in millions) CONTINUED

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 (2020: 6.2%). 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, renewable resources, 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.

		Fund's Indirect Share	
By counterparty	Number of counterparties	2021	2020
Contracts in net favourable position (current credit exposure)	75	$ 286	$ 1,773
Contracts in net unfavourable position	11	(107)	(2,571)
Net fair value of derivative contracts	86	$ 179	$ (798)

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 $286 (2020: $1,773) 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.

	Fund's Indirect Share	
Types of derivatives used in pools	2021	2020
Equity-based derivatives	$ 65	$ (559)
Foreign currency derivatives	103	(180)
Interest rate derivatives	6	(59)
Credit risk derivatives	5	-
Net fair value of derivative contracts	$ 179	$ (798)

i) Equity-based derivatives include equity swaps. Equity swaps are contracts where one counterparty agrees to pay or receive from the other, cash flows based on changes in the value of an equity index, a basket of stocks, or a single stock in exchange for a return based on a fixed or floating interest rate or the return on another instrument. Rights, warrants, futures and options are also included as equity-based derivatives.

ii) 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 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 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) At March 31, 2021, deposits in futures contracts margin accounts totaled $71 (2020: $315). Cash and non-cash collateral for derivative contracts pledged and received, respectively, totaled $140 (2020: $702) and $nil (2020: $nil).

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	
	2021	2020
Accumulated net income	$ 46,174	$ 44,820
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
Amounts retained in (transferred from) the Fund		
Section 8 transfers [(b)]		
Income	(46,379)	(45,025)
Amount Retained in the Fund	4,368	4,222
	(42,011)	(40,803)
Capital Expenditures (1976-1995) [(c)]	(3,486)	(3,486)
Other Statutory Transfers [(d)]	(255)	(255)
	(45,752)	(44,544)
Accumulated surplus from operations	16,389	16,243
Accumulated remeasurement gains	1,414	85
Carrying value of net financial assets	$ 17,803	$ 16,328

(a) The Access to the Future Fund was disestablished in December 2019 and eliminated the related notional account within the Fund. The initial $1,000 funded in 2005-06 and 2006-07 will remain in the Fund, no longer allocated for Advanced Education.

(b) During the year, the Fund earned net income of $1,354, of which $146 was retained in the Fund and $1,208 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 and 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, $3 to the Agriculture and Food Innovation Account, and $52 to the Access to the Future Fund were made from the Fund in 2015.

NOTE 6 INVESTMENT INCOME (in millions)

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

	2021	2020
Interest-bearing securities	$ 285	$ 126
Equities		
Canadian	260	75
Global	867	282
Private	53	98
	1,180	455
Inflation sensitive		
Real estate	6	462
Infrastructure	37	234
Renewable resources	(25)	176
	18	872
Strategic, tactical and currency investments	38	18
	$ 1,521	$ 1,471

The investment income includes realized gains and losses from disposal of pool units totalling ($25) (2020: $403) and from directly held foreign exchange contracts totalling $3 (2020: $nil). Income distributions from the pools total $1,543 (2020: $1,068).

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. Other-than-temporary losses included in investment income in the statement of operations and accumulated surplus were $371 (2020: $95). Because the investments are accounted for on a fair value basis, the recording of other-than-temporary losses through the statement of operations does not affect the performance of the fund

NOTE 7 INVESTMENT EXPENSES (in millions)

	2021	2020
Amount charged by AIMCo for: [(a)]		
Investment costs	$ 86	$ 86
Performance based fees	81	67
Total investment expenses	$ 167	$ 153
Increase in expenses	9.2%	14.2%
Increase (decrease) in average investments under management	1.0%	(2.6%)
Decrease in value of investments attributed to AIMCo	0.6%	(5.9%)
Investment expense as a percent of dollar invested	0.9%	0.9%

(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. A majority of amounts recovered by AIMCo for performance based fees relate to external managers hired by AIMCo.

Includes $114 thousand (2020: $114 thousand) charged to the Fund by Alberta Treasury Board and Finance for investment accounting and reporting services.

NOTE 8 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]	**2021**	**2020**	**5 years** [d]	**10 years**
Net return on investments [b]	16.1%	(5.1%)	7.4%	8.9%
Policy benchmark return [b]	15.5%	0.8%	8.0%	8.6%
Value (lost) added by AIMCo [c]	0.6%	(5.9%)	(0.6%)	0.3%

(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 assessed by management and either reflected in the current or 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 annualized five-year rolling average CPI (plus 4.5%) is 6.1%, bringing the five-year annualized Portfolio Return Expectation to 7.1%.

NOTE 9 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 and 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.