

2018–19 **Annual Report**  
Alberta Heritage  
Savings Trust Fund

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Heritage Fund

Alberta 

Alberta Heritage Savings Trust Fund, 2018–19 Annual Report  
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# Highlights

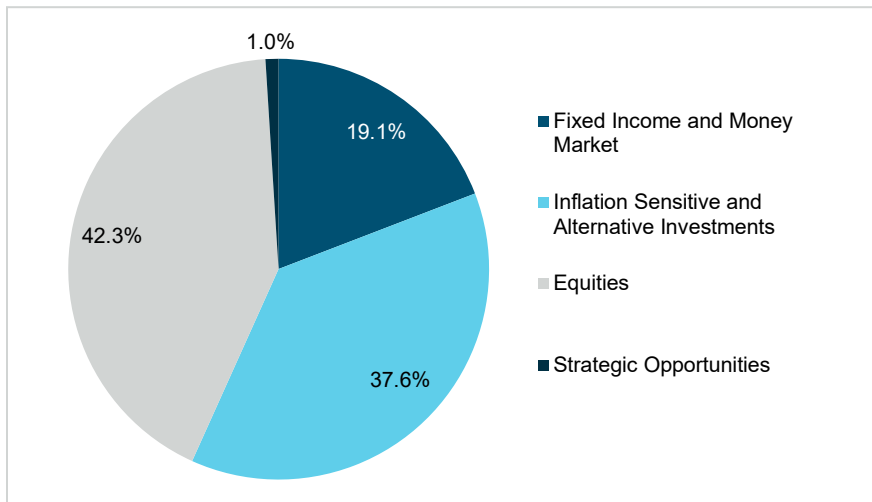
**8.0%**  
(net of fees)

1 year Rate of Return

**\$18.2** billion

Fair Value of net Assets

Asset Mix as at March 31, 2019



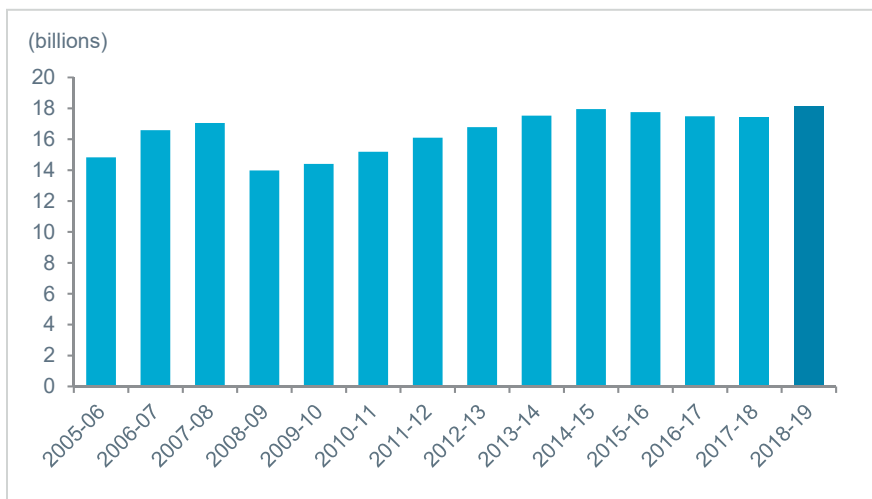
**10.8%** net of fees

10 year Annualized Rate of Return

**\$563** million

Investment Income Transferred to General Revenue Fund

Market Value at Fiscal Year End



**\$374** million

Investment Income Retained for Inflation-Proofing

**\$43.5** billion

Cumulative Transfers to General Revenue Fund Since Inception

# Table of Contents

Highlights .....	1
Message from the President of Treasury Board and Minister of Finance .....	3
About the Heritage Fund .....	4
Heritage Fund Governance .....	6
Portfolio Construction .....	7
Alberta Growth Mandate .....	8
Guiding Principles .....	8
Investments .....	8
The 2018–19 Year in Review .....	10
Investment Income .....	11
Income Transfer and Inflation-proofing .....	12
Investment Expenses .....	13
Asset Mix .....	13
Investment Performance .....	14
Equities .....	15
Fixed Income .....	16
Inflation-Sensitive and Alternative Investments .....	17
Currency Exposure .....	19
Alberta Exposure .....	19
Historical Summary of Operations .....	20
Annual Financial Statements March 31, 2019 .....	23

# Message from the President of Treasury Board and Minister of Finance

The Alberta Heritage Savings Trust Fund is a source of pride for all Albertans, and this annual report for 2018-19 shows that it continues to be a sound investment in our collective future.

The Heritage Fund has performed well, posting a 10-year average annual rate of return of more than 10 per cent because of its diversified portfolio. In an uncertain and often tumultuous global economy this fund has held steady.

The Heritage Fund has contributed more than \$43 billion since 1976, funding programs, services and infrastructure that improve the lives of Albertans. Today the fund stands at over \$18 billion, and with another year of prudent and expert investment it will continue to support our province.

Our government knows the importance of this fund as we work to renew the Alberta Advantage by growing our economy, creating jobs and balancing the budget.

In the coming year, as minister responsible for the Heritage Fund's performance, I am committed to working hard to grow our economy and look forward to working with the skilled officials who manage the fund and ensure it provides strong long-term investment returns for all Albertans.

[Original signed by Travis Toews]  
President of Treasury Board, Minister of Finance

# About the Heritage Fund

1976	1982	1987	1995	1997
Inception of 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 (“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 2018-19, the Heritage Fund earned \$937 million in net income, retained \$374 in the Fund for inflation-proofing, and transferred \$563 million to the GRF.

## WHAT IS THE HERITAGE FUND WORTH TODAY?

The net financial assets of the Fund were valued at \$18.2 billion on March 31, 2019.

## 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

## 2019

Net Income of \$937 million

## 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 \$18.2 billion, in part due to the legislated inflation-proofing which has kept \$2.4 billion in the Fund and the growth of investments. Since 2010, the Fund has provided \$10.9 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 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 25, 2018 at the Federal Building in Edmonton. This meeting was live-streamed over the internet with a live-chat, providing a greater number of Albertans with an opportunity 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 used to mitigate risk in the portfolio. The Fund holds a range of assets that react differently in a wide variety of market environments.

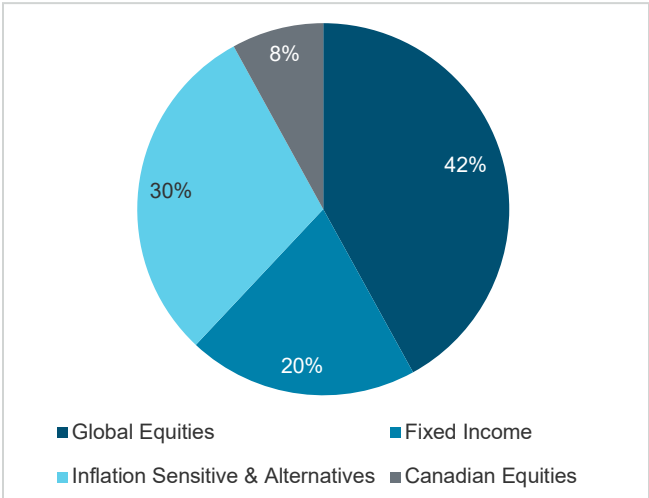
The President of Treasury Board, Minister of Finance approves the SIP&G for the Fund. This document describes the Heritage Fund’s target policy portfolio. The policy portfolio provides guidelines for investment strategies available to the Fund. This base portfolio is determined through extensive financial 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 to earn 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 32 separate transactions, which represents a total investment value of \$406.2 million.

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)	VERSUS (10th Avenue Residential)	24.2	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 Buildings	22.0	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	6.2	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
November 27, 2017	First Nations ETF	7.0	Interest Bearing Notes	Oil & Gas
December 15, 2017	Enerflex	4.2	Interest Bearing Notes	Oil & Gas
December 31, 2017	Five Corners Residential	10.6	Direct Investment	Real Estate
January 15, 2018	Razor Energy	3.0	Loan Facility/Common Shares	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
November 7, 2018	Ikkuma Resources	3.5	Debt	Oil & Gas
Total Investments to date:		406.2		

# The 2018–19 Year in Review

The 2018-19 fiscal year experienced its share of difficulties. Trade war concerns, high levels of volatility and periods of alternating strong and weak economic data contributed to a roller coaster of returns and interest rate uncertainty. Early in the fiscal year, world interest rate probabilities were leaning toward an increasing rate environment consisting of several rate hikes. A very different outlook was present to end the fiscal year as the market began pricing in rate cuts in Canada and the US as early as December 2019.

Fixed income markets saw Canadian 10-year bond yields hitting their highest levels since 2014 at the start of October. During this same week, a sharp downturn in equities began. As the volatility persisted and the equity markets tested new resistance levels, fixed income markets saw higher bond prices and a corresponding downturn in Canadian bond yields across the curve that would persist until the end of the fiscal year. The equity underperformance was felt strongly in late December when year-to-date returns for North American equity markets turned negative. In December, the S&P 500 fell over 15% and the TSX reacted similarly, losing almost 10%.

Despite the turmoil in the public markets, year-end valuation uplifts from illiquid assets were able to buoy performance into positive territory by the end of 2018. This is typically the case as it is expensive and time consuming to value these assets and as a result, this intensive process is performed at AIMCo calendar year end. The Infrastructure portfolio recorded one of the best years of performance since inception. Canadian Real Estate was also able to contribute to the overall return with net value increases from all four Toronto area property types, office, retail, industrial, and residential.

Equity markets rebounded over the fourth fiscal quarter, more than regaining all December losses. Despite this rebound, portfolio returns still lagged the benchmark. Value driven strategies detracted the most from overall performance, while Information Technology sharply reversed late 2018 losses.

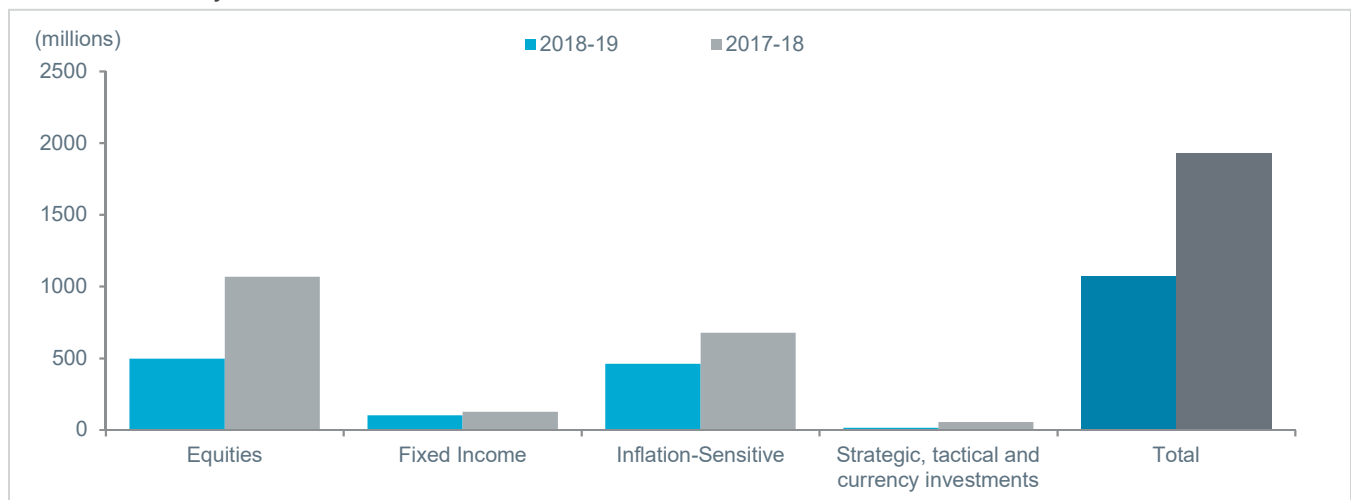
## INVESTMENT INCOME

The Heritage Fund earned gross investment income for the fiscal year ending March 31, 2019 of \$1,071 million. This is less than the \$1,926 million earned last fiscal year. Investment expenses for the year were \$134 million, resulting in net investment income of \$937 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 \$374 million, based on the Alberta Consumer Price Index increase of 2.4%.

*Budget 2018* projected net income to be \$1,530 million for the year; however, actual net income was \$593 million less than expected. Market volatility in late December and lower-than-expected returns in equity were a few factors that contributed to the reduction in investment income for the fund.

All of the asset classes earned less income than they did the previous year. Equities contributed \$495 million, which was \$572 million less than the prior year. The Heritage Fund has a 26.7% allocation to Foreign Equity, which includes Global Equities and Emerging Markets. Inflation sensitive and alternative assets contributed \$461 million, which was \$217 million less than the prior year. Although these investments contributed less income, performance was positive over the year and buoyed performance overall. Fixed income contributed \$101 million, \$26 million less than the prior year. Although the overall contribution to income was lower from this asset class, fixed income investments provided steady value add throughout the year, which aided the portfolio through volatile times. Strategic opportunities provided \$14 million in income, down \$40 million from the prior year.

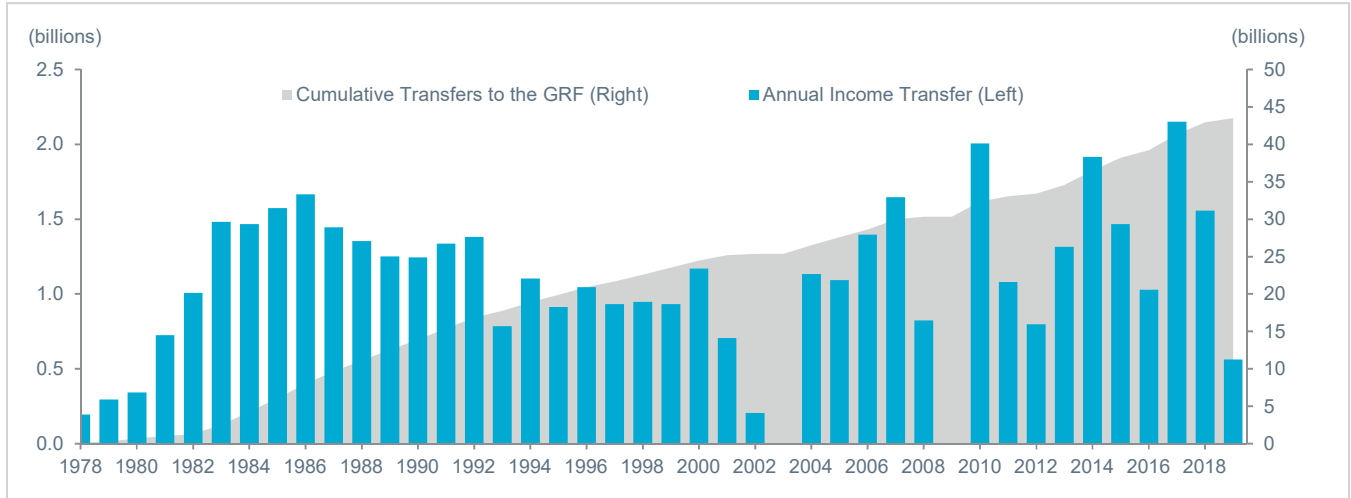
Investment Income by Asset Class



## INCOME TRANSFER AND INFLATION-PROOFING

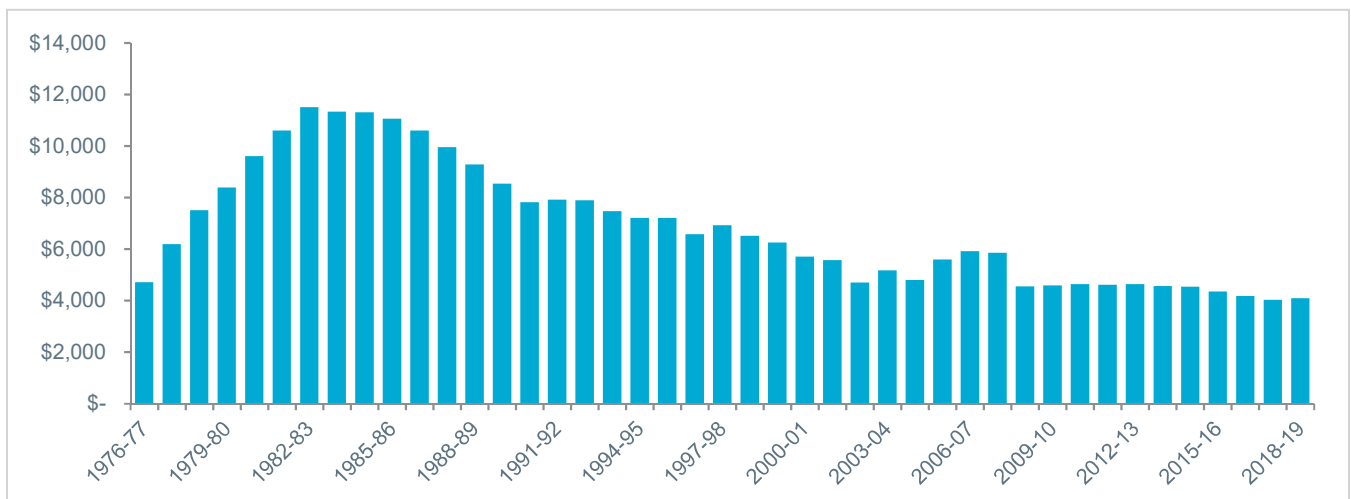
Established in 1976, the Heritage Fund has earned \$43.5 billion in accumulated net income as of March 31, 2019, of which \$3.9 billion has been retained for inflation proofing. Income transfers to the General Revenue Fund commenced in 1982-83, and since then, \$39.8 billion has been transferred to support 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 \$43.5 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 \$4,097 per Albertan. There are three factors that have led to the decrease over the years. Firstly, deposits into the fund from natural resource revenues were decreased in 1983 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  
(2019 dollars)



## INVESTMENT EXPENSES

The Heritage Fund's investment expenses were \$134 million for the year ended March 31, 2019, \$5 million less than the previous year. The expenses for the year were \$11 million more than projected in *Budget 2018*. 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 2018-19 were 0.75% of the average fair value of investments compared to 0.77% during the previous year.

### Investment Expenses

(millions)	2019	2018
Total Investment expenses	\$134	\$139
Average Fair Value of Investments	\$17,908	\$17,984
Per cent of investments at average fair value	0.75%	0.77%

## ASSET MIX

Over the year, the asset mix of the Heritage Fund changed with market movements.

Inflation sensitive and alternatives assets have stayed the same, although allocations within this asset class have shifted. Real Estate has been reduced 1.2%, from 25.2% to 24.0%, while infrastructure has grown 1.1%, from 9.5% to 10.6%. The reduction in Real Estate is in compliance with portfolio management initiatives to reduce the value of this asset class in line with interim expectations. The increase in infrastructure can be attributed to two factors: growth in the value of the investments as well as sale of assets. Timberland saw a small increase of 0.01%.

Fixed income increased by 0.6% during the year, from 18.5% to 19.1%. Although equity market performance was volatile, fixed income produced steady value added. The equity allocation decreased 0.5% from 42.8% to 42.3% as the equity markets faced a very turbulent year.

Strategic opportunities, which are investments that do not fit directly into any of the asset classes, decreased slightly to 1.0% of assets.

### Asset Mix (Long-term Target Asset Mix)

	March 2019	March 2018	Policy Range
<b>Fixed Income and Money Market (20%)</b>	<b>19.1%</b>	<b>18.5%</b>	<b>15-45%</b>
Deposits and short-term	0.6%	0.6%	0-25%
Bonds and mortgages	18.5%	17.9%	10-35%
<b>Inflation-Sensitive and Alternative Investments (30%)</b>	<b>37.6%</b>	<b>37.6%</b>	<b>15-40%</b>
Real estate	24.0%	25.2%	10-20%
Infrastructure	10.6%	9.5%	5-15%
Timberland	3.0%	2.9%	0-5%
<b>Equities (50%)</b>	<b>42.3%</b>	<b>42.8%</b>	<b>35-70%</b>
Canadian	8.1%	8.1%	5-15%
Global developed	23.5%	24.2%	20-65%
Emerging markets	3.2%	3.6%	0-10%
Private	7.5%	6.9%	0-10%
<b>Strategic Opportunities</b>	<b>1.0%</b>	<b>1.1%</b>	<b>0-5%</b>
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, 2019, the Fund returned 8.8% on an annualized basis. The Fund outperformed its’ policy benchmark of 7.7%, as well as the long term CPI plus 4.5% target which returned 6.0%. Over a 10-year annualized time horizon, the Fund has returned 10.8% versus a policy benchmark return of 9.6%.

The Heritage Fund return, net of fees, was 8.0% during the 2018-19 fiscal year, while the policy benchmark return was 6.5%. The asset classes that added the most value were infrastructure, real estate, and private equity. Foreign equity was the largest detractor of value although it remains positioned to perform over the long term.

## Total Fund Performance

	2018-19	2017-18	5 Year	10 Year
Fund Rate of Return	8.0	8.5	8.8	10.8
Benchmark	6.5	7.1	7.7	9.6
Active Management	1.5	1.4	1.1	1.2
Long Term Return Target - CPI + 4.5	6.0	6.1	6.0	6.2
Active management target	1.0	1.0	1.0	1.0
Total Target Return	7.0	7.1	7.0	7.2

## Asset Class Return versus Benchmark

	1 Year Return	1 Year Benchmark	5 Year Return	5 Year Benchmark
Fixed Income	6.0	5.3	4.8	3.8
Inflation Sensitive and Alternative Investments	11.0	6.3	9.7	6.6
Real Estate	9.0	6.4	8.9	7.4
Infrastructure	15.1	6.1	11.7	4.6
Timberland	14.2	6.1	9.7	4.6
Equities	6.5	7.1	9.6	9.8
Canadian	6.5	8.1	5.5	5.4
Global	4.5	6.4	10.9	10.6
Private	14.8	8.1	7.1	10.2



## 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 \$7.7 billion or 42.3% of its assets in equity investments as at March 31, 2019. The asset value of equities in the portfolio is in line with last year, however, total allocation to the fund has been reduced 0.5%, from 42.8%. The total equities portfolio returned 6.5% for the year ended March 31, 2019, underperforming the benchmark return of 7.1% by 65 basis points.

Five-year annualized performance of the equity portfolio stands at 9.6% at fiscal year end, trailing the equity benchmark of 9.8% by 26 basis points. On a five-year annualized basis, total private equity has been the largest detractor to overall performance, while emerging markets have also struggled to beat the benchmark.

### Canadian Equity

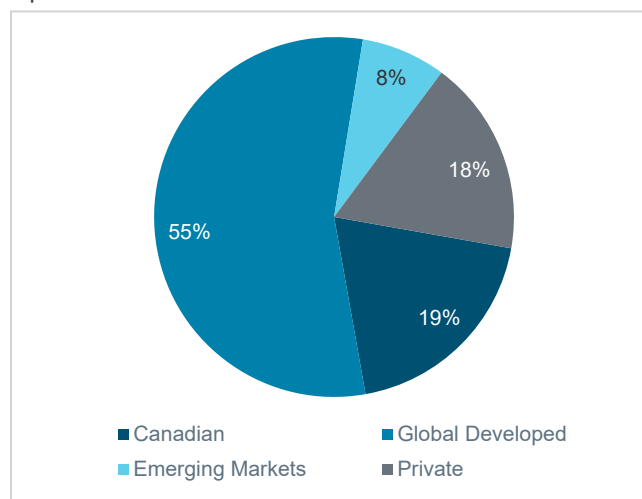
The Fund's Canadian equity portfolio returned 6.5% for the fiscal year, underperforming the S&P/TSX Composite Index return of 8.1%. In late December, year-to-date returns for the index were erased as the Canadian Equity market experienced a sharp sell-off. The market began to rebound in January and by quarter end had returned 13.3%. The Energy sector was a large contributor to the index's rebound performance as the sector benefited from oil prices rising almost 30% over the quarter. Momentum was prevalent across all sectors in the Canadian market, and aided in recouping losses experienced in the late part of 2018.

Five-year annualized performance for the portfolio was 5.5%, outperforming the benchmark of 5.4% by 10 basis points.

### Global Equities

The Fund's global equity portfolio returned 4.5% for the fiscal year, underperforming the MSCI All Country World (\$CAD) return of 6.4%. At year end, global equities totalled \$4.9 billion, unchanged from the prior year. Although performance did not beat the benchmark in 2018-19, the long-term performance of the global equity portfolio has been very good. Five-year annualized performance for the portfolio was 10.9%, outperforming the benchmark of 10.6% by 34 basis points.

## Equities



### Top 10 Canadian Public Equity Holdings

As at March 31, 2019

Holding	Weight (%)	\$ in Millions
Royal Bank of Canada	6.7%	\$98.1
Toronto-Dominion Bank/The	5.8%	\$85.3
Canadian National Railway Co	3.4%	\$50.6
Enbridge Inc	3.0%	\$44.3
Suncor Energy Inc	2.8%	\$41.7
Bank of Nova Scotia/The	2.7%	\$39.2
Bank of Montreal	2.5%	\$36.9
Alimentation Couche-Tard Inc	2.4%	\$35.6
CGI Inc	2.1%	\$30.9
Canadian Imperial Bank of Commerce	2.1%	\$30.6
<b>Total – Top 10 Holdings</b>	<b>33.6%</b>	<b>\$493.2</b>

### Top 10 Global Public Equity Holdings

As at March 31, 2019

Name	Weight (%)	\$ in Millions
Microsoft Corp	2.0%	\$90.2
Apple Inc	1.5%	\$65.7
Amazon.com Inc	1.4%	\$63.6
Facebook Inc	1.0%	\$42.6
Alphabet Inc	0.8%	\$37.0
Roche Holding AG	0.8%	\$35.6
Tencent Holdings Ltd	0.5%	\$23.1
Johnson & Johnson	0.8%	\$34.7
Nestle SA	0.7%	\$33.4
Alphabet Inc	0.7%	\$33.4
<b>Total – Top 10 Holdings</b>	<b>10.2%</b>	<b>\$459.3</b>

## Private Equity

Private equity investment was \$1.4 billion at year end, up from \$1.2 billion 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 financing, management buyouts, family succession, turnaround financing, project financing and leverage reductions. The private equity portfolio had a 14.8% return for the fiscal year. The benchmark for the fiscal year returned 8.1%. The private equity portfolio over the past five years has produced an annualized return of 7.1%. Over the same time frame, the Private Equity benchmark returned 10.2%, resulting in underperformance of 314 basis points.

## 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, 2019, the Fund had \$3.5 billion or 19.1% invested in the fixed income portfolio, which was \$0.2 million more 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 6.0%, 72 basis points more than its benchmark return of 5.3%. The portfolio had a cash position of \$106 million at the end of the year, up \$19 million from the previous year.

The five-year annualized performance of the fixed income portfolio closed the fiscal year at 4.8%, outperforming the FTSE TMX Universe Bond Index benchmark return of 3.8% by 98 basis points.

## 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 \$2.2 billion at fiscal year end, up from \$2.0 billion the previous year. The bond portfolio returned 6.2% for the year, beating the benchmark return of 5.3%.

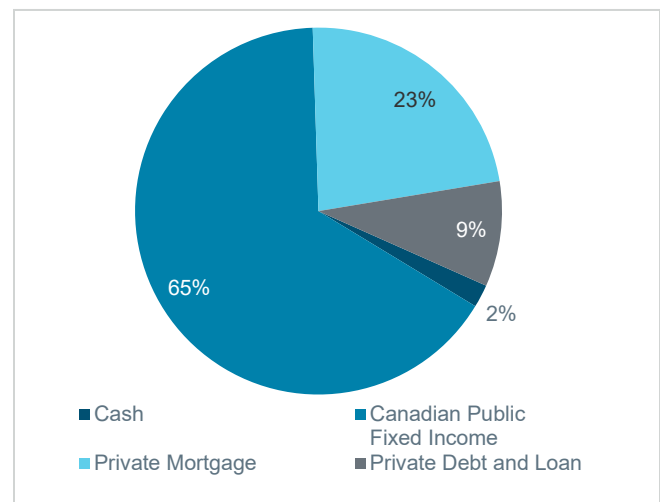
The five-year annualized performance of the bond portfolio closed the fiscal year at 4.7%, outperforming the FTSE TMX Universe Bond Index benchmark return of 3.8% by 91 basis points.

## Private Equity Program Top 10 Holdings

As at March 31, 2019

Name	Sector
Vue Entertainment	Consumer Discretionary
Hayward Industries Inc	Consumer Discretionary
ERM	Business Services
CCMP III	Fund
New Mountain IV	Fund
Ring Partners II	Industrials
Permira VI	Fund
Schustermann & Borenstein	Consumer Discretionary
Lion Capital	Fund
HGGC Fund III-A, L.P.	Fund

## Fixed Income



## Private Mortgages

The Fund's private mortgage investments are diversified geographically and by property type. Private mortgage investments are meant to augment the fixed income portfolio by offering a diversified source of yield enhancement. At fiscal year end, the Fund had investments of \$797 million, a decrease of \$157 million from the previous year. Over the year, the private mortgage portfolio returned 6.8%, which was 152 basis points more than the FTSE TMX Universe Bond Index return. Over the past five years, the annualized return for the portfolio was 4.7%, outperforming the benchmark return of 3.8% by 91 basis points.

## Private Debt and Loan

The Heritage Fund held \$324 million in private debt and loan assets as at March 31, 2019. The return for these assets for the year was 3.8% which was 150 basis points less than the FTSE TMX Universe Bond Index. 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 returned 4.7% over an annualized five-year period, beating the benchmark by 88 basis points.

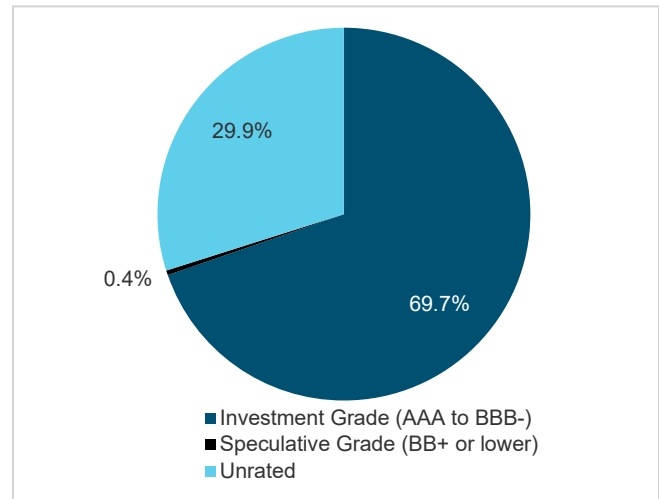
## INFLATION-SENSITIVE AND ALTERNATIVE INVESTMENTS

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. Over the year, the foreign real estate allocation to the portfolio has fallen, while the allocation to infrastructure assets has increased.

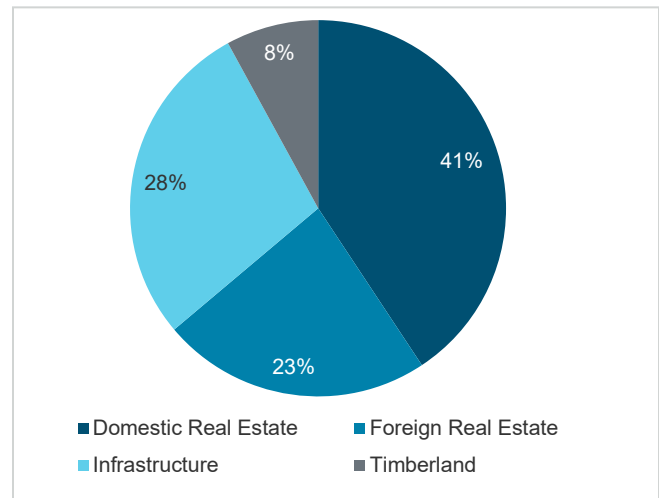
As of March 31, 2019, the inflation sensitive investments made up 37.6% of the total investments, unchanged from the previous year. The long term policy target weight of these assets is 30%.

Total inflation sensitive investments are \$6.8 billion, an increase of \$221 million over the previous year. The increase includes some gains in the value of investments made in previous years and additional investments made during 2018-19. The overall combined return for inflation sensitive and alternative investments was 11.0%, 469 basis points greater than the benchmark's return of 6.3%. The inflation sensitive and alternatives portfolio has returned 9.7% over an annualized five year horizon, outpacing the benchmark return of 6.6% by 311 basis points.

Ratings



Inflation-Sensitive



## Real Estate

At year end, the Heritage Fund's investment in real estate was roughly \$4.4 billion, which was unchanged from the previous year. Real estate holdings were predominantly Canadian with \$2.8 billion invested, which is 64% of the real estate portfolio. The portfolio's foreign real estate has \$1.6 billion invested, down from \$1.7 billion at the end of the previous year. Real estate returned 9.0% for the year. The return beat the benchmark, which returned 6.4%. Over the past five years, the real estate portfolio has produced a strong annualized return of 8.9%, outpacing the real estate benchmark return of 7.4% by 151 basis points.

### Top 10 Domestic Real Estate Ending March 31, 2019

Property	Sector	Location
Yorkdale Shopping Centre	Retail	Ontario
Square One Shopping Centre	Retail	Ontario
Scotia Plaza	Office	Ontario
Scarborough Town Centre	Retail	Ontario
CR Richmond Centre	Retail	BC
Eighth Avenue Place	Office	Alberta
Edmonton Tower	Office	Alberta
5th Avenue Place	Office	Alberta
First Canadian Place	Office	Ontario
TD Square	Office	Alberta
Total - Top 10 Holdings		\$1,416.2 (millions)

### Top 10 Foreign Real Estate Ending March 31, 2019

Property	Sector	Region
Docks Brussel	Retail	Europe
Ultrabox Logistics U.K.	Industrial	United Kingdom
Whitewood TV City	Residential	United Kingdom
BORO - Meridian Co-Invest	Office	United States
White City Place	Office	United Kingdom
WPT Industrial REIT - Restricted	Equity	United States
Techworld Co-Invest	Office	United States
Leadenhall Triangle	Office	United Kingdom
M25 Causeway Parks	Office	United Kingdom
620 Avenue of the Americas	Office	United States
Total - Top 10 Holdings		\$643.5 (millions)

## Timberlands

Investments in Canadian and foreign timberlands and renewable resource assets totalled \$543 million, up \$30 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 14.2% versus its benchmark return of 6.1%. Over the last five years, the timberland portfolio has returned an annualized 9.7%, which beat its benchmark's return of 4.6% by 513 basis points.

### Timberlands Ending March 31, 2019

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

## Infrastructure

Infrastructure investments provide attractive returns plus inflation sensitivity with a long investment horizon. The Fund's infrastructure investments totaled \$1.9 billion at year end, which was \$262 million higher than 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 15.1% compared to its benchmark return of 6.1%. The five year annualized return of the infrastructure portfolio was 11.7%, outperforming the benchmark return of 4.6% by 704 basis points.

### Private Infrastructure Program Top 10 Holdings

As at March 31, 2019

Company	Sector	Geography
Howard Mainstream Energy	Pipelines & Mainstream	United States
sPower	Renewable Energy	United States
SAESA Group	Integrated Utilities	Chile
London City Airport	Transportation	United Kingdom
Porterbrook	Transportation	United Kingdom
Puget Energy Inc.	Integrated Utilities	United States
Eolia Renovables de Inversiones	Renewable Energy	Spain
Catalyst InvestCo LLC	Pipelines & Mainstream	United States

## 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 65.0% of the Fund at March 31, 2019. This is up 2.1% from the previous year, when the Fund had 62.8% 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 to the US dollar at 17.1%.

### Currency Exposure

As at March 31, 2019

	2019	2018
Canadian Dollar	65.0%	62.8%
US Dollar	17.1%	17.5%
Euro	5.0%	5.9%
Japanese Yen	2.0%	2.1%
British Pound	4.2%	4.7%
Other	6.7%	6.9%
Total	100.0%	100.0%

## 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 \$1.4 billion invested in Alberta, the largest portion of which is in real estate, which has \$942.5 million invested in various properties located in Alberta. This is followed by \$361.5 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.

### Alberta Exposure

As at March 31, 2019

Asset Class	Market Value (Millions)
Real Estate	\$942.5
Equity	\$361.5
Mortgages	\$97.5
Private Equity	\$26.6
Fixed Income	\$(2.3)
Total	\$1,425.8

# Historical Summary of Operations

May 19, 1976 to March 31, 2019

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

Fiscal Year	Net Income (Loss) <sup>a</sup>	TRANSFERS TO THE FUND			TRANSFERS FROM THE FUND			Fund Equity (at cost)
		Resource Revenue Allocation	Deposits	Advanced Education Endowment <sup>b</sup>	Investment Income Transfers <sup>c</sup>	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 <sup>e</sup>	1,046	-	-	-	(1,046)	-	-	11,826
1996-97	932	-	-	-	(756) <sup>d</sup>	-	-	12,002
1997-98	947	-	-	-	(922) <sup>d</sup>	-	-	12,027
1998-99	932	-	-	-	(932)	-	-	12,027
1999-00	1,169	-	-	-	(939) <sup>d</sup>	-	-	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

Fiscal Year	Net Income (Loss) <sup>a</sup>	TRANSFERS TO THE FUND			TRANSFERS FROM THE FUND			Fund Equity (at cost)
		Resource Revenue Allocation	Deposits	Advanced Education Endowment <sup>b</sup>	Investment Income Transfers <sup>c</sup>	Capital Project Expenditures	Other Transfers	
2005-06	1,397	-	1,000	750	(1015) <sup>d</sup>	-	-	13,495
2006-07	1,648	-	1,000	250	(1365) <sup>d</sup>	-	-	15,028
2007-08	824	-	918	-	(358) <sup>d</sup>	-	-	16,412
2008-09	(2,574)	-	-	-	-	-	-	13,838
2009-10	2,006	-	-	-	(2,006)	-	-	13,838
2010-11	1,080	-	-	-	(720) <sup>d</sup>	-	-	14,198
2011-12	798	-	-	-	(344) <sup>d</sup>	-	-	14,652
2012-13	1,316	-	-	-	(1155) <sup>d</sup>	-	-	14,813
2013-14	2,109	-	-	-	(1916) <sup>d</sup>	-	-	15,006
2014-15	1,678	-	-	-	(1468) <sup>d</sup>	-	(255)	14,961
2015-16	1,238	-	-	-	(1029) <sup>d</sup>	-	-	15,170
2016-17	2,333	-	-	-	(2151) <sup>d</sup>	-	-	15,352
2017-18	1,787	-	-	-	(1557) <sup>d</sup>	-	-	15,582
2018-19	937	-	-	-	(563) <sup>d</sup>	-	-	15,956
TOTAL	43,502	12,049	2,918	1,000	(39,772)	(3,486)	(255)	15,956

- 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, 2019 the accumulated amount retained in the Fund for inflation-proofing was \$3,935 million (2018: \$3,561 million).
- e March 31, 1996 marked the end of the old structure of the Heritage Fund. In 1996-97, the Fund commenced a structuring process under a new framework. The new framework provided for a transition into more market based investments, inflation proofing the Fund and a long-term investment horizon providing for the greatest financial returns on investments.





March 31, 2019

# Annual Financial Statements

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Alberta Heritage Savings Trust Fund

Independent Auditor's Report

To the President of Treasury Board, Minister of Finance

## REPORT ON THE FINANCIAL STATEMENTS

### Opinion

I have audited the financial statements of the Alberta Heritage Savings Trust Fund (the Fund), which comprise the statement of financial position as at March 31, 2019, 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, 2019, 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 5, 2019  
Edmonton, Alberta

# Statement of Financial Position

As at March 31, 2019  
(in millions)

	2019	2018
<b>Financial assets</b>		
Investments (Note 3)	\$ 18,183	\$ 17,633
Receivable from sale of investments	10	10
Due from the General Revenue Fund	67	-
	<u>18,260</u>	<u>17,643</u>
<b>Liabilities</b>		
Due to the General Revenue Fund	-	207
Payable from purchase of investments	14	10
	<u>14</u>	<u>217</u>
<b>Net financial assets</b>	<u>\$ 18,246</u>	<u>\$ 17,426</u>
<b>Net financial assets</b> (Note 5)		
Accumulated operating surplus	\$ 15,956	\$ 15,582
Accumulated remeasurement gains	2,290	1,844
	<u>\$ 18,246</u>	<u>\$ 17,426</u>

# Statement of Change in Net Financial Assets

Year Ended March 31, 2019  
(in millions)

	2019		2018
	Budget	Actual	Actual
Net surplus retained in the Fund	\$ 328	\$ 374	\$ 230
Net remeasurement gains (losses)		446	(287)
<b>Increase in net financial assets</b>		<b>820</b>	<b>(57)</b>
<b>Net financial assets, beginning of year</b>		17,426	17,483
<b>Net financial assets, end of year</b>		<u>\$ 18,246</u>	<u>\$ 17,426</u>

*The accompanying notes are part of these financial statements.*

# Statement of Operations and Accumulated Surplus

Year Ended March 31, 2019  
(in millions)

	2019		2018
	Budget	Actual	Actual
Investment income (Note 7)	\$ 1,653	\$ 1,071	\$ 1,926
Investment expenses (Note 8)	(123)	(134)	(139)
<b>Net income from operations</b>	1,530	937	1,787
Transfers from (to) the General Revenue Fund (Note 5b)	(1,202)	(563)	(1,557)
<b>Net surplus retained in the Fund (Note 5b)</b>	<b>\$ 328</b>	<b>374</b>	<b>230</b>
Accumulated operating surplus, beginning of year		15,582	15,352
<b>Accumulated operating surplus, end of year</b>		<b>\$ 15,956</b>	<b>\$ 15,582</b>

# Statement of Remeasurement Gains and Losses

Year Ended March 31, 2019  
(in millions)

	2019	2018
Unrealized gains on investments	\$ 642	\$ 25
Less: Amounts reclassified to the Statement of Operations - realized gains on investments	(196)	(312)
<b>Net remeasurement gains (losses)</b>	<b>446</b>	<b>(287)</b>
Accumulated remeasurement gains, beginning of year	1,844	2,131
<b>Accumulated remeasurement gains, end of year</b>	<b>\$ 2,290</b>	<b>\$ 1,844</b>

*The accompanying notes are part of these financial statements.*

# Statement of Cash Flows

Year Ended March 31, 2019  
(in millions)

	2019	2018
<b>Operating transactions</b>		
Net income from operations	\$ 937	\$ 1,787
Non-cash items included in net income	(196)	(312)
	741	1,475
Increase in accounts receivable	-	(10)
Increase in accounts payable	4	10
Cash provided by operating transactions	745	1,475
<b>Investing transactions</b>		
Proceeds from disposals, repayments and redemptions of investments	2,553	4,113
Purchase of investments	(2,442)	(3,403)
Cash provided by investing transactions	111	710
<b>Transfers</b>		
Transfers to the General Revenue Fund	(563)	(1,557)
Decrease in amounts due to the General Revenue Fund	(274)	(644)
Cash applied to transfers	(837)	(2,201)
<b>Increase (decrease) in cash</b>	19	(16)
Cash at beginning of year	87	103
<b>Cash at end of year</b>	\$ 106	\$ 87
<b>Consisting of Deposits in the Consolidated Cash Investment Trust Fund (CCITF) *</b>	\$ 106	\$ 87

\* 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, 2019

## 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)).

**NOTE 3** INVESTMENTS (in millions)

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

Asset class	Fair Value Hierarchy <sup>(a)</sup>		2019	2018
	Level 2	Level 3		
<b>Interest-bearing securities</b>				
Deposits in CCITF	\$ 106	\$ -	\$ 106	\$ 87
Bonds, mortgages and private debt	2,253	1,121	3,374	3,181
	2,359	1,121	3,480	3,268
<b>Equities</b>				
Canadian	1,473	-	1,473	1,440
Global developed	3,912	352	4,264	4,254
Emerging markets	588	-	588	643
Private	-	1,359	1,359	1,218
	5,973	1,711	7,684	7,555
<b>Inflation sensitive</b>				
Real estate	-	4,367	4,367	4,438
Infrastructure	-	1,929	1,929	1,667
Timberland	-	543	543	513
	-	6,839	6,839	6,618
<b>Strategic, tactical and currency investments *</b>	12	168	180	192
<b>Total Fair Value of Investments</b>	<b>\$ 8,344</b>	<b>\$ 9,839</b>	<b>\$ 18,183</b>	<b>\$ 17,633</b>

\* 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 \$8,344 (2018: \$8,086).
- **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 \$9,839 (2018: \$9,547).

## Reconciliation of Level 3 Investments

	2019	2018
Balance, beginning of year	\$ 9,547	\$ 9,198
Unrealized gains	590	79
Purchases of Level 3 pooled fund units	1,101	1,690
Sale of Level 3 pooled fund units	(1,399)	(1,420)
<b>Balance, end of year</b>	<b>\$ 9,839</b>	<b>\$ 9,547</b>

## 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 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 Policy Asset Mix	Actual Asset Mix			
		2019		2018	
Interest-bearing securities	15 - 45%	\$ 3,480	19.1%	\$ 3,268	18.5%
Equities	35 - 70%	7,684	42.3%	7,555	42.8%
Inflation sensitive	15 - 40%	6,839	37.6%	6,618	37.6%
Strategic, tactical and currency investments	(a)	180	1.0%	192	1.1%
		<b>\$ 18,183</b>	<b>100.0%</b>	<b>\$ 17,633</b>	<b>100.0%</b>

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

**a) Credit Risk****i) Debt securities**

The Fund is indirectly exposed to credit risk associated with the underlying debt securities held in the pools managed by AIMCo. Counterparty credit risk is the risk of loss arising from the failure of a counterparty to fully honour its financial obligations. The credit quality of financial assets is generally assessed by reference to external credit ratings. 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, 2019:

Credit rating	2019	2018
Investment Grade (AAA to BBB-)	69.7%	66.9%
Speculative Grade (BB+ or lower)	0.4%	0.5%
Unrated	29.9%	32.6%
	100.0%	100.0%

**ii) Counterparty default risk - derivative contracts**

The Fund is exposed to counterparty credit risk associated with the derivative contracts held in the pools. The maximum credit risk in respect of derivative financial instruments is the fair value of all contracts with counterparties in a favourable position (see Note 4f). 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, 2019, the Fund's share of securities loaned under this program is \$550 (2018: \$592) and collateral held totals \$582 (2018: \$632). 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 35% (2018: 37%) of the Fund's investments, or \$6,365 (2018: \$6,552), are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar, 17% (2018: 18%) and the Euro, 5% (2018: 6%).

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 3.5% of total investments (2018: 3.7%).

The following table summarizes the Fund's exposure to foreign currency investments held in the pools at March 31, 2019:

Currency <sup>(a)</sup>	2019		2018	
	Fair Value	Sensitivity	Fair Value	Sensitivity
U.S. dollar	\$ 3,105	\$ (311)	\$ 3,089	\$ (309)
Euro	913	(91)	1,043	(104)
British pound sterling	756	(76)	834	(83)
Japanese yen	365	(37)	366	(37)
Hong Kong dollar	208	(21)	174	(17)
Other foreign currency	1,018	(102)	1,046	(105)
<b>Total foreign currency investments</b>	<b>\$ 6,365</b>	<b>\$ (638)</b>	<b>\$ 6,552</b>	<b>\$ (655)</b>

<sup>(a)</sup> 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 (2018: 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 (2018: 5.6%). Changes in fair value of investments are recognized in the statement of remeasurement gains and losses.

**e) Liquidity risk**

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

**f) Use of Derivative Financial Instruments in Pooled Investment Funds**

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

By counterparty	Number of counterparties	Fund's Indirect Share	
		2019	2018
Contracts in net favourable position (current credit exposure)	65	\$ 552	\$ 111
Contracts in net unfavourable position	16	(531)	(239)
<b>Net fair value of derivative contracts</b>	<b>81</b>	<b>\$ 21</b>	<b>\$ (128)</b>

- 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 \$552 (2018: \$111) 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	
	2019	2018
Structured equity replication derivatives	\$ 57	\$ (50)
Foreign currency derivatives	(39)	(98)
Interest rate derivatives	1	17
Credit risk derivatives	2	3
<b>Net fair value of derivative contracts</b>	<b>\$ 21</b>	<b>\$ (128)</b>



- i) 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 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, 2019, deposits in futures contracts margin accounts totaled \$29 (2018: \$30). Cash and non-cash collateral for derivative contracts pledged and received, respectively, totaled \$51 (2018: \$52) and \$1 (2018: \$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	
	2019	2018
<b>Accumulated net income</b>	\$ 43,502	\$ 42,565
<b>Transfers to the Fund</b>		
Resource Revenue (1976-1987)	12,049	12,049
Access to the Future <sup>(a)</sup>	1,000	1,000
Voted Payments	2,918	2,918
	15,967	15,967
<b>Transfers (from) the Fund</b>		
Section 8 transfers <sup>(b)</sup>		
Income	(43,707)	(42,770)
Amount Retained in the Fund	3,935	3,561
	(39,772)	(39,209)
Capital Expenditures (1976-1995) <sup>(c)</sup>	(3,486)	(3,486)
Other Statutory Transfers <sup>(d)</sup>	(255)	(255)
	(43,513)	(42,950)
<b>Accumulated surplus from operations</b>	15,956	15,582
<b>Accumulated remeasurement gains</b>	2,290	1,844
<b>Carrying value of net financial assets</b>	\$ 18,246	\$ 17,426

- (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 \$937, of which \$374 was retained in the Fund and \$563 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 in 2015. 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:

	2019	2018
Balance, beginning of year	\$ 1,584	\$ 1,460
Rate of return adjustment	126	124
<b>Balance, end of year</b>	<b>\$ 1,710</b>	<b>\$ 1,584</b>

- 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 by asset class:

	2019	2018
<b>Interest-bearing securities</b>	<b>\$ 101</b>	<b>\$ 127</b>
<b>Equities</b>		
Canadian	85	101
Global	289	826
Private	121	140
	495	1,067
<b>Inflation sensitive</b>		
Real estate	343	357
Infrastructure	57	250
Timberland	61	71
	461	678
<b>Strategic, tactical and currency investments</b>	14	54
	<b>\$ 1,071</b>	<b>\$ 1,926</b>

The investment income includes realized gains and losses from disposal of pool units totalling \$194 (2018: \$313) and from directly held foreign exchange contracts totalling \$2 (2018: (\$1)). Income distributions from the pools total \$875 (2018: \$1,614).

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)

	2019	2018
Amount charged by AIMCo for:		
Investment costs <sup>(a)</sup>	\$ 104	\$ 109
Performance based fees <sup>(a)</sup>	30	30
<b>Total investment expenses</b>	<b>\$ 134</b>	<b>\$ 139</b>
(Decrease) increase in expenses	(3.6%)	3.7%
Decrease in average		
investments under management	(0.4%)	(0.9%)
Increase in value of		
investments attributed to AIMCo	1.5%	1.4%
Investment expense as a percent of		
dollar invested	0.7%	0.8%

(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 (2018: \$115 thousand) charged to the Fund by Alberta Treasury Board and Finance for investment accounting and reporting services.

**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			
	2019	2018	5 years <sup>(d)</sup>	10 years
<b>Time-weighted rates of return, at fair value <sup>(a)</sup></b>				
<b>Net return on investments <sup>(b)</sup></b>	8.0%	8.5%	8.8%	10.8%
<i>Policy benchmark return <sup>(b)</sup></i>	6.5%	7.1%	7.7%	9.6%
Value added by AIMCo <sup>(c)</sup>	1.5%	1.4%	1.1%	1.2%

(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 annualized five-year rolling average CPI (plus 4.5%) is 6.0%, bringing the five-year annualized Portfolio Return Expectation to 7.0%.

**NOTE 10** COMPARATIVE FIGURES

Comparative figures related to the fair value hierarchy in Note 3 have been reclassified to conform to the presentation adopted in 2019. The current classification of investments within the hierarchy reflects the quality and reliability of the valuation of the pool units. Previous presentation reflected the quality and reliability of the valuation of significant securities held within the pools.

**NOTE 11** 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

