Alberta

Freedom To Create. Spirit To Achieve.

Alberta Heritage Savings Trust Fund

Annual Report 2010–2011

Government of Alberta

Heritage Fund

The mission
of the Heritage Fund
is to provide prudent stewardship
of the savings from Alberta's
non-renewable resources by providing
the greatest financial returns on those savings
for current and future generations
of Albertans.

Published by Alberta Finance and Enterprise

ISBN 978-0-7785-9644-8

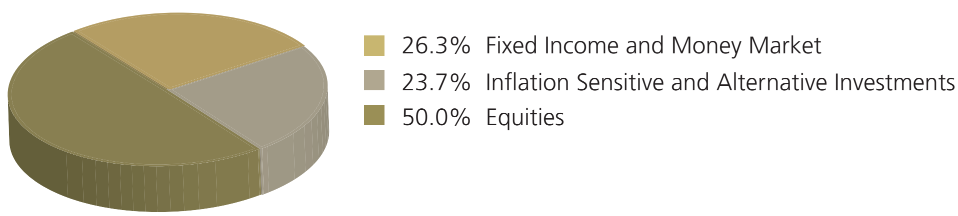
FINANCIAL HIGHLIGHTS

	2010-11	2009-10
Total Fund (billions)	$15.2	$ 14.4
Total Income (millions)	$1,080	$2,006
Income Transfer to GRF (millions)	$720	$2,006
Retained for Inflation Proofing (millions)	$360	$0

$15.2 BILLION
FAIR VALUE AT MARCH 31, 2011

10.4%
RATE OF RETURN

Heritage Fund Asset Mix



Fair Value of Heritage Fund

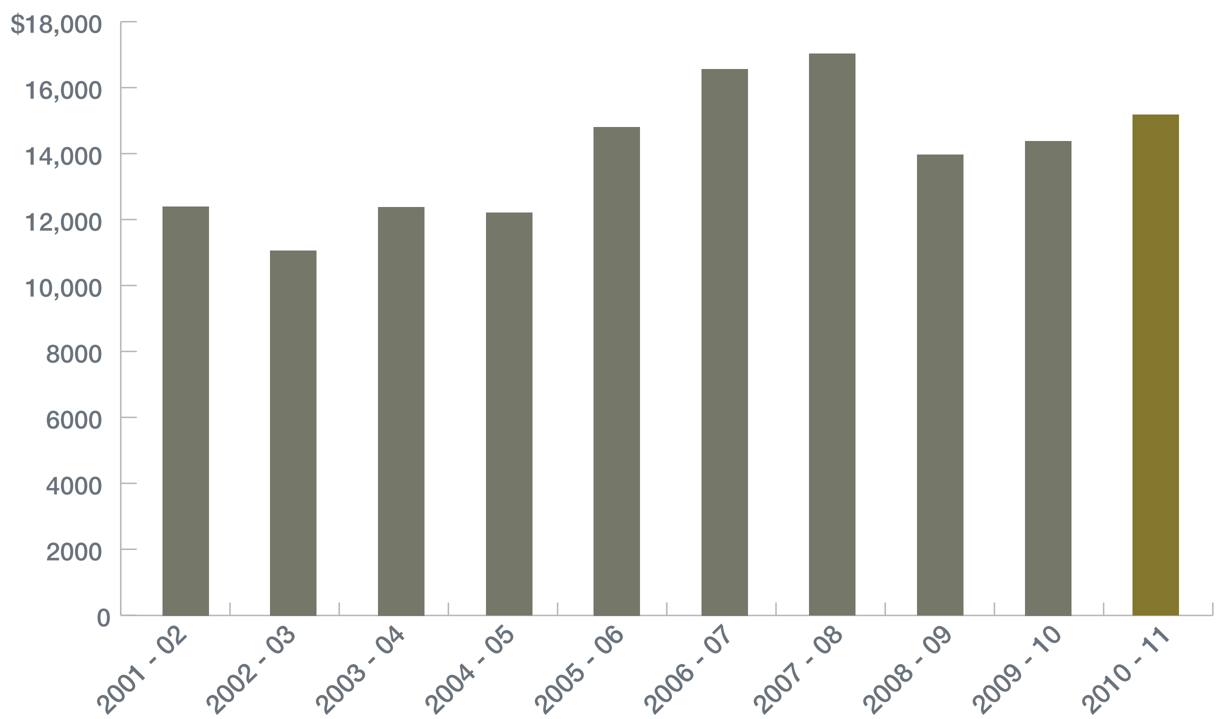


TABLE OF CONTENTS

Message from the Minister of Finance and Enterprise

The Alberta Heritage Savings Trust Fund continues to be an important part of Alberta's fiscal framework. Not only does it support Albertans' priorities today, it is a legacy for future generations.

Since 1976, the Heritage Fund has contributed $33 billion to health care, education and other programs and services important to Albertans. During the 2010-11 fiscal year, the Heritage Fund earned $1.1 billion in investment income, about $100 million more than originally forecast.

To protect against inflation, $360 million of the Heritage Fund's 2010-11 earnings were retained and reinvested. The balance of the year's income was transferred to the province's general revenues.

After transfers to general revenues, the Heritage Fund's fair value at March 31, 2011 was $15.2 billion – up $790 million from 2009-10. For the 2010-11 fiscal year, the Heritage Fund provided a 10.4 per cent return on investment, and over the past 10 years, an annualized return of 5.3 per cent has been achieved.

The volatility of the markets over the past three years highlights the importance of taking a long-term, global view with a prudently managed, well-diversified portfolio of investments. A long-term approach means the Heritage Fund can accept some year-to-year volatility and risk, in exchange for greater returns over the long haul.

In addition to investments made in Alberta and Canada, the Heritage Fund invests its capital in stable developed markets such as the United States, Europe, Asia, and the Far East, as well as in emerging markets. The Fund's assets are invested in public and private equities, bonds and mortgages, real estate, hedge funds, and infrastructure projects. Other investments are made in more specialized assets such as timberland.

With continued strong leadership and fiscal management, the Heritage Fund will remain a cornerstone of Alberta's financial structure, moving Alberta forward to a bright and promising future, while supporting our needs today.

[Original signed by Lloyd Snelgrove]

Honourable Lloyd Snelgrove
Minister of Finance and Enterprise

About the Heritage Fund

1976 Inception of Fund

1984 Natural resource revenue transfers cut to 15% from 30%

1987 Natural resource revenue transfers halted

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

What is the Heritage Fund?

The Heritage Fund is Alberta's long-term savings fund. Originally, the Fund was established to collect a portion of Alberta's non-renewable resource revenue for future generations. Today the Fund produces income which supports government programs essential to Albertans such as health care and education.

When was the Heritage Fund established?

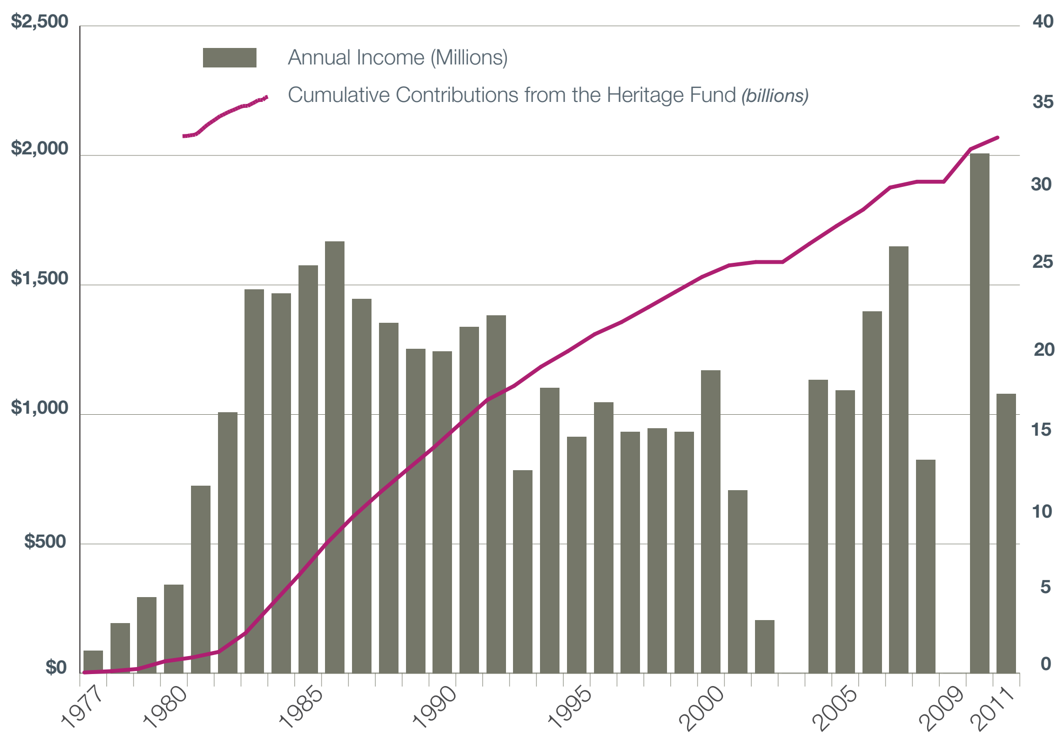
The Fund was created in 1976.

At first, 30 per cent of Alberta's non-renewable resource revenue was transferred to the Fund. As Alberta experienced tough economic times in the early 1980s, this percentage was reduced to 15 per cent and eventually cut to zero in 1987.

After eliminating its accumulated debt in 2005, the Alberta government began putting money into the Heritage Fund again. This reinvestment came in part from the government's budget surpluses.

What is the Heritage Fund worth today?

The Heritage Fund was worth $15.2 billion as of March 31, 2011.



* No income was transferred to the General Revenue Fund in 2002-03 and 2008-09, because the Fund recorded losses in those years of $894 million and $2.57 billion respectively.

1997

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

2006

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

2007

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

2010

Heritage Fund records income of $2.0 billion

What happens to the income earned by the Heritage Fund?

The Fund's legislation provides that it retain a portion of its income as protection against inflation. The remaining income is transferred to the Province's General Revenue Fund. These transfers from the Heritage Fund help keep taxes low and pay for priority programs.

In 2010-11 the Heritage Fund provided $1,080 million in revenue for Alberta, after inflation proofing $720 million was transferred to GRF.

Over the past 35 years, $33 billion from the Heritage Fund has supported spending in areas such as health care, education, infrastructure, debt reduction and social programs.

In the graph on the previous page, the vertical bars show the annual investment income earned by the Fund in each of the past 35 years (in millions). The horizontal line shows the cumulative amount provided for program and capital spending. As you can see, by 2011 the fund had contributed $33 billion to support priority programs over the years.

How is the Heritage Fund invested?

The Fund's investment goal is to achieve a long-term financial return of 4.5 per cent above Canadian inflation, as measured by the Consumer Price Index (CPI). The investment plan is based on two important concepts: diversification to manage risk, and a long-term planning horizon to earn greater returns.

Half of the Heritage Fund's investments are in private and public companies, with the remainder invested in bonds, real estate, and infrastructure investments.

Who keeps track of the Fund's investments?

The Minister of Finance and Enterprise is ultimately responsible for the Fund and its investments. The Department 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 the Alberta Investment Management Corporation (AIMCo).

Four times a year, the Minister of Finance and Enterprise reports to Albertans on the performance of the Fund. Within 90 days of the end of each fiscal year, the Minister releases the Fund's annual report.

The Heritage Fund's business plan is published at the same time as the provincial budget.

Alberta Heritage Savings Trust Fund Governance

Governance

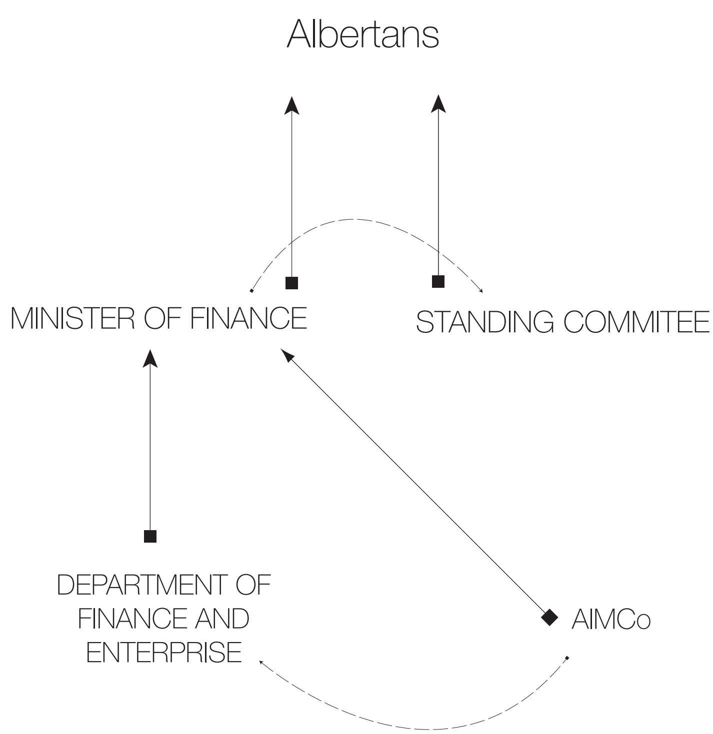
The Fund operates under the authority of the *Alberta Heritage Savings Trust Fund Act*. The act created the Standing Committee on the Alberta Heritage Savings Trust Fund to oversee the management of the Heritage Fund. The act makes the Minister of Finance and Enterprise responsible for managing the Fund's investments.

The Standing Committee on the Alberta Heritage Savings Trust Fund is an all-party committee of the Legislative Assembly and is responsible under the act for approving the Heritage Fund's annual business plan and annual report.

The Committee is required to review the performance of the Heritage Fund and report to the Legislature as to whether the mission of the Heritage Fund is being fulfilled. The Committee holds a public meeting annually. The most recent annual meeting was held in October 2010 in Lethbridge and was televised for the first time.

The Minister of Finance and Enterprise is responsible for making sure the Heritage Fund is 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 act also requires the Minister to make investments with the objective of maximizing long-term financial returns.

The Minister is supported in various aspects of the investment management process for the Heritage Fund by two groups: Alberta Finance and Enterprise and the Alberta Investment Management Corporation (AIMCo).



Alberta Finance and Enterprise is responsible for developing the Statement of Investment Policies and Guidelines for the Heritage Fund, and for conducting ongoing research and analysis of asset allocation and risk management for the Fund.

AIMCo is responsible for managing the investments of the Heritage Fund in accordance with the Statement of Investment Policies and Guidelines. AIMCo is a Provincial Corporation, headquartered in Edmonton and governed by a Board of Directors that includes senior business and investment management leaders.

How the Fund is Invested

The Heritage Fund has a long-term objective of achieving a rate of return of 4.5 per cent over the Canadian rate of inflation. The Government of Alberta has determined that this objective is achievable while maintaining risk at a prudent level.

Key Investment Risks

At a broad level, the investment strategy is to take a series of calculated risks that will pay the investor a premium over time. Different categories of investments have different risks. The types of risk that the government takes in managing the portfolio include:

- *Equity risk*: Holding investments in a market like equities is riskier than holding investments in provincial bonds or Canadian government bonds. Investors require a premium to bear this risk. Historically this premium has averaged between two and five per cent over a long period of time.

- *Credit risk*: The promise to pay from an entity like a corporation or municipal government may be less secure than the same investment in the Government of Canada. Therefore such entities must pay investors a premium over Government bond rates to make this risk more attractive.

- *Liquidity risk*: Some investments, like a Government of Canada bond, can be sold immediately with little or no adverse effect on the price. This is not the case for many other types of investments such as real estate, private equity or hedge funds, whose value can be diminished if they must be sold at the wrong time. These investments are referred to as illiquid and carry the risk that they might not be able to be sold at a reasonable price in the event of an immediate need for cash.

- *Interest rate risk*: Interest-bearing securities like bonds face the risk that market interest rates will rise. As interest rates rise, the value of a bond held in a portfolio will fall.

- *Inflation risk*: An increase in inflation will erode the purchasing power or real value of the Heritage Fund. The Fund deals with this risk in two ways. The first is the legislated inflation-proofing, meaning a portion of the Fund's income is retained in the Fund to help ensure it does not lose real value over time. The second is by holding assets that provide protection from inflation, such as real estate and infrastructure.

- *Country risk*: Making investments in foreign countries carries with it a risk of political instability, unpredictable monetary and capital markets policy or the potential of sovereign default. Any of these things can reduce the value of an investment. Even developed nations such as Ireland and Greece have seen an increase in this risk in recent years as the world deals with the fallout from the global recession. However, Canada only represents approximately five per cent of the world's capital markets. By investing outside of Canada, the Fund has much broader opportunities for investments and diversification.

- *Currency risk*: Making investments in currencies other than the Canadian dollar exposes the portfolio to the risk of the Canadian dollar appreciating against that currency. If that happens then as income is received or the investment is sold, it is converted back into Canadian dollars at a reduced amount, thus eroding the investment's value. Risk is taken into consideration by the Government when investing outside Canada but the Government believes that it benefits from currency diversification.

Portfolio Construction

In order to achieve the return objective and to deal with the risks mentioned on the previous page, the Fund is invested in a globally diversified portfolio of assets. Diversification is the key tool by which risk is mitigated in the portfolio. The Fund holds many different assets that should react differently in a wide variety of market environments. In simple terms, the Fund does not put all of its eggs in one basket.

The Minister of Finance and Enterprise approves the Statement of Investment Policies and Guidelines for the Fund. Within this document is the Fund's target policy portfolio. The policy portfolio provides a guideline for investment strategies available to the Fund. This base portfolio is determined through extensive financial modeling by the Department and gives the province the ability to manage risk and position the Fund to meet return targets over time.

Some key highlights of the policy portfolio are:

- The Fund has target allocations to three broad categories: Equities, Fixed Income, and Inflation Sensitive & Alternatives. Both at the broad category level and at the asset class level, there are wide ranges around the strategic allocation targets that give AIMCo the freedom to actively manage the portfolio and add value.
- A move towards more non-Canadian assets: Canada only represents approximately five per cent of the world's capital markets. While some of the best companies on the globe are Canadian, there is also opportunity outside our borders. This is especially true in faster-growing, emerging markets in Asia and Latin America. Investing in many different countries and currencies also provides diversification benefits.
- A move towards more long-lived assets: The policy portfolio for the Fund calls for significant increases to real estate and infrastructure. Because the Fund has a long-term horizon, it can afford to hold longer-lived or illiquid assets. Also, real estate and infrastructure generally offer stable long-term cash flows and some measure of inflation protection, which are important for the Heritage Fund.

Active Management

AIMCo has the mandate to actively manage the 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 Heritage Fund is a further one per cent on top of the return on the long-term policy benchmark.

Active management can also be a source of risk mitigation: some investments are selected to help diversify the portfolio, or because they carry lower risk than the market as a whole.

The 2010-11 Year in Review

The Fund earned a net investment income of $1.08 billion for the year ended March 31, 2011. Of the total net income earned this year, $360 million was retained in the Fund for inflation-proofing. The remainder of the Fund's income, $720 million, was transferred to the General Revenue Fund.

Actual income for the year exceeded budget income by $104 million. According to the Fund's business plan for the fiscal year 2010-11, the Fund was expected to earn a net income of $976 million, after expenses of $74 million, and retain $291 million in the Fund for inflation-proofing.

At March 31, 2011, the net assets held in the Fund totalled $14.2 billion, at cost, and $15.2 billion, at fair value. At March 31, 2011, 50 per cent of the Fund's investments were invested in equities (e.g., stocks) followed by 26.3 per cent in money market and fixed-income securities and 23.7 per cent in inflation-sensitive and alternative investments.

The cost of the Fund's investments primarily reflects the purchase price of the various assets held in the Fund. The fair value of the Fund's investments represents what those assets are estimated to be worth at current market values. The difference between the Fund's cost and fair value of net assets represents unrealized gains or losses. Unrealized gains represent the profit that would be made if the assets were sold. At March 31, 2011, net unrealized gains increased to $992 million, up from $562 million at the beginning of the year.

Over the past year, the Fund's investments had a market value return of 10.4 per cent.

The table below summarizes the overall change in the net assets of the Fund.

CHANGES IN NET ASSETS *(in millions)*	**Budget** *Fiscal Year*	**Actual** *For the year ended March 31,*	
	2010-11	**2011**	**2010**
Investment income	$ 1,050	$ 1,152	$ 2,077
Investment expenses	(74)	(72)	(71)
Net income	976	1,080	2,006
Transfers to the General Revenue Fund	(685)	(720)	(2,006)
Net income retained in the Fund	291	360	-
Cost of net assets, beginning of year	13,838	13,838	13,838
Cost of net assets, end of year	$ 14,129	$ 14,198	$ 13,838
Accumulated unrealized gain		992	562
Fair value of net assets, end of year		$ 15,190	$ 14,400

INVESTMENT INCOME

Investments and investment income are recorded in the financial statements on a cost basis, which excludes unrealized gains and losses. Investment income on a fair value basis includes changes in unrealized gains and losses. The fair value of investments provides information used to assess the investment performance of the Fund against market-based benchmarks.

The table below shows the net income of the Fund, on a cost and fair value basis, for each asset class, net of expenses. On a fair value basis, the Fund recorded a net gain of approximately $1.5 billion for the year ended March 31, 2011, compared to a net gain of $2.4 billion for last year.

SUMMARY OF NET INVESTMENT INCOME AT COST AND FAIR VALUE

For the year ended March 31 (in millons)

ASSET CLASS	Net income (loss) cost basis		Increase (decrease) in unrealized gains		Income (loss) fair value basis	
	2011	2010	2011	2010	2011	2010
Fixed income and money market	$ 256	$ 274	$ 2	$ 169	$ 258	$ 443
Canadian public equities	286	366	31	393	317	759
Foreign equities	297	1,043	171	186	468	1,229
Private equities	31	(35)	38	35	69	-
Real estate	96	110	131	(278)	227	(168)
Real return bonds	7	1	(1)	2	6	3
Infrastructure and private debt	23	86	23	(77)	46	9
Hedge funds	90	150	23	14	113	164
Timberland	1	17	12	(24)	13	(7)
Fund investment expenses	(7)	(6)	-	-	(7)	(6)
Net Investment income	$ 1,080	$ 2,006	$ 430	$ 420	$ 1,510	$ 2,426

INVESTMENT EXPENSES

The day-to-day investment services for the Fund are provided by Alberta Investment Management Corporation (AIMCo), which manages the majority of the Fund's investments through pooled investment funds. While most of the investments are managed directly by AIMCo, some investments are managed by third party investment managers selected and monitored by AIMCo. The Department of Finance and Enterprise provides investment accounting and reporting for the Fund, investment policy oversight and cash management services. A portion of these costs is charged to the Fund.

Investment expenses as a percentage of net assets are provided below. Overall, expenses increased by $1 million, or 1.4 per cent, from the previous year.

INVESTMENT EXPENSES

For the year ended March 31

(in millions)	2011	2010
Private equities	$ 21	$ 19
Foreign equities	14	16
Real estate	10	8
Hedge funds	8	8
Investment administration expense	7	6
Infrastructure and private debt	6	6
Fixed income and money market securities	3	4
Canadian equities	2	3
Timberland	1	1
Total investment expenses	$ 72	$ 71
Average fair value of investments for the year ended March 31	$ 14,915	$ 14,172
Expenses as a percent of investments at average fair value	0.48%	

INVESTMENTS

The table on the right provides the actual asset mix of the Fund to the approved policy asset mix ranges.

As a percentage of the total Fund, equities declined from 53.2% to 50.0% while fixed income and money market securities increased from 25.5% to 26.3% and inflation sensitive and alternative investments increased from 21.3% to 23.7%.

	Actual		Policy
ASSET MIX	**Mar 2011**	**Mar 2010**	**Range**
FIXED INCOME AND MONEY MARKET	**26.3%**	**25.5%**	**15-45%**
Deposits and short-term	0.7%	0.8%	0-25%
Bonds and mortgages	25.6%	24.7%	10-35%
Long bonds	0.0%	0.0%	0-10%
EQUITIES	**50.0%**	**53.2%**	**35-70%**
Public			
Canadian	9.2%	14.0%	0-15%
Global developed	35.0%	34.2%	20-65%
Emerging markets	0.3%	0.3%	0-10%
Frontier markets	0.0%	0.0%	0-5%
Private	5.5%	4.7%	0-10%
INFLATION SENSITIVE AND ALTERNATIVE INVESTMENTS	**23.7%**	**21.3%**	**15-40%**
Real estate	12.9%	11.2%	10-20%
Real return bonds	0.0%	0.6%	0-10%
Infrastructure	3.8%	3.5%	5-15%
Hedge funds	5.1%	5.4%	0-10%
Private debt	0.5%	0.0%	0.0%
Timberland	1.4%	0.6%	0-5%
	100.0%	100.0%	100%

SUMMARY OF NET ASSETS

For the year ended (in millions)	March 31, 2011			March 31, 2010		
	Fair Value	Cost	Unrealized gain (loss)	Fair Value	Cost	Unrealized gain (loss)
Investments:						
Money market securities	$ 119	$ 119	$ -	$ 123	$ 123	$ -
Fixed income securities	3,954	3,948	6	3,550	3,546	4
Canadian equities	1,414	1,214	200	2,012	1,843	169
Global developed equities	5,412	5,141	271	4,917	4,815	102
Emerging markets equities	45	46	(1)	39	42	(3)
Private equities	845	797	48	677	667	10
Real estate	1,987	1,544	443	1,614	1,302	312
Real return bonds	5	4	1	82	80	2
Infrastructure and private debt	662	717	(55)	502	580	(78)
Hedge funds	788	720	68	783	738	45
Timberland	216	205	11	83	84	(1)
Total Investments	15,447	14,455	$ 992	14,382	13,820	$ 562
Net payables (1)	(257)	(257)		18	18	
Net assets	$ 15,190	$ 14,198		$ 14,400	$ 13,838	

(1) At March 31, 2011, includes transfers payable to the GRF of $276 million and accrued income of $19 million.

The table above shows the fair value and cost of each asset class and the unrealized gain or loss at March 31, 2011, and March 31, 2010. Unrealized gains and losses represent the difference between the fair value and cost of the investment. Once securities are sold, unrealized gains or losses become realized and are included in investment income for the year. At March 31, 2011, the pool of unrealized gains had increased by $430 million to $992 million from $562 million at the beginning of the fiscal year. Most of the increase in unrealized gains came from public equities ($202 million), followed by real estate ($131 million), alternative investments ($95 million) and fixed income securities ($2 million).

Market Commentary*

The past decade ended with government spending at extraordinary levels and interest rates near zero in the developed world. Excess capacity in the economy abounded, U.S. consumer demand was feeble, and the U.S. housing market was in rough shape.

Statistically speaking, the recession in the U.S. was over in July 2009, giving cause for optimism over the next twelve months. As it turned out, the 2010-2011 fiscal year had slowing but positive growth, modest profit improvement, and weak inflation.

There were some significant shocks to the financial markets. Government debt problems in Europe emerged and still continue to affect markets. Other major shocks included a massive earthquake in Japan, and several political upheavals in the Middle East and North Africa that caused sharp increases in energy prices. Stock markets were quite volatile, and trade and currency issues between the U.S. and other nations emerged as disagreement over policies brewed. There was also a second round of quantitative easing (a U.S. Federal Reserve asset purchase program) which inflated the price of riskier assets (i.e. stocks), depreciated the U.S. dollar, and kept interest rates low.

In the U.S., there was much talk of a double-dip recession around mid-2010. The likelihood of this diminished as the economy improved, but the Federal Reserve had already committed to its quantitative easing program. The S&P 500 Index ended the year up 15.6 per cent, in U.S. dollar terms.

In Canada, stocks were sluggish in the first half of the year but rallied in the second half. Commodity exposure and a stronger economic performance in Canada helped the S&P/TSX Composite Index end the year with a gain of about 20.4 per cent. In 2010, Canadian economic growth was strong in the first half of the year and slowed in the second half. The Organisation for Economic Co-operation and Development (OECD) has forecasted Canada to be the strongest performing G7 economy in 2011. Canada should continue to benefit in 2011 from high commodity prices and a resilient banking system.

*Provided by AIMCo.

Government debt problems in Europe endured well into a second year, particularly in Greece, Portugal and Ireland. So far, the European Union is standing firm behind its members with bailouts at the ready. However, central bankers are concerned that European inflation and German economic growth have both proceeded a little too fast for comfort. European policymakers will need to be very careful in balancing growth in core European economies (e.g., Germany, France) while solving problems at the periphery (e.g., Greece, Portugal).

Emerging markets are posting a worrying amount of inflation, particularly fair food prices. In Latin America, currencies are strengthening against the U.S. dollar, which hurts their exports. Asian markets are heating up and monetary tightening (e.g., increasing interest rates, raising the amount of reserves a bank must deposit with its respective central bank) may accelerate past market expectations. In China, inflation remains a serious problem, although the Chinese government has been aggressive in fighting it.

In the beginning of 2011, markets were surprisingly resilient to several shocks, including Middle East and North African political upheavals and the devastating Japanese earthquake. At almost any other point in history, one would have expected a sharp drop in the equity market and a climbing U.S. dollar as investors piled into U.S. Treasury securities, traditionally considered as pre-eminent safe-haven assets. Stock markets initially dropped, but quickly recovered, which suggests the global recovery is going ahead in an orderly manner, and market momentum continues. The markets appear to believe that the U.S. is recovering firmly, which is pulling other economies along as global trade recovers. Presently, the two biggest risks to the global economy are persistently high oil prices and the possibility of a major fiscal or monetary policy mistake by a central bank or government.

Fixed income markets posted positive returns over the fiscal year. U.S. 10-year yields started the fiscal year at 3.9 per cent and ended the year at 3.5 per cent. Similarly, the Canadian 10-year yields started the fiscal year at 3.6 per cent and ended the year at 3.4 per cent.

Investment Performance

The Heritage Fund is managed as a long-term investment fund as set out in the act. The Fund's performance is measured on one-year performance numbers and on a five-year annualized rolling basis. The Fund has a long-term goal to achieve a return of Consumer Price Index (CPI) + 4.5 per cent. The policy target is set to meet this goal over the long-term. In addition to this goal, Alberta Investment Management Corporation (AIMCo) is expected to achieve the value-added target as set out in the Heritage Fund's Business Plan. This is to be achieved by selecting better-performing securities, and by making allocation decisions within the ranges given in the Asset Mix in the Statement of Investment Policy and Guidelines. The current value-added target that the Government expects is 1.0 per cent, as set out in the 2010-13 Heritage Fund Business Plan.

The Heritage Fund earned a strong return for the fiscal year ending March 31, 2011. Total Fund return was 10.4 per cent, which beat its total return goal of 8.8 per cent. The five-year return which reflects the 2008 financial crisis, was 3.5 per cent, falling short of the Fund's target goal of 7.2 per cent.

The policy benchmark used to measure the value added by AIMCo was 9.4 per cent. The 1.0 per cent of value added is attributable to AIMCo's tactical asset allocation decisions and their ability to select investments that out-perform the index against which they are being measured. The five-year return was 3.5 per cent. This return was 0.3 per cent below the five-year benchmark.

Total Fund Performance

(In Percent)	2011	2010	5 Year	10 Year
Rate of return	**10.4**	**17.8**	**3.5**	**5.3**
Benchmark	9.4	16.3	3.8	5.1
Value Added	1.0	1.5	(0.3)	0.2
Return Goal CPI + 4.5	7.8	5.9	6.3	6.6
Value Added Target	1.0	1.0	0.8	0.6
Total Return Goal	8.8	6.9	7.2	7.2

Asset Class Returns versus Benchmark

(In Percent)	1 Year Return	1 Year Benchmark	5 Year Return	5 Year Benchmark
Fixed Income	**6.9**	**5.0**	**5.0**	**5.2**
Alternative Investments and Inflation Sensitive	**12.6**	**8.8**	**7.8**	**5.9**
Real Estate	13.4	11.3	9.3	9.2
Infrastructure/Private Debt	8.1	8.2	10.4	7.8
Timberland	9.6	6.2	9.1	5.8
Equities	**11.8**	**11.6**	**0.9**	**1.7**
Canadian	19.9	20.4	6.2	6.0
Global	10.0	8.1	-1.7	-1.7
Private	8.4	10.2	4.0	9.8

The table above illustrates that all the asset classes outperformed their respective benchmarks on a one-year basis. Most sub-asset classes also outperformed their benchmarks. The notable exceptions were Canadian equity, private equity and infrastructure/private debt. All asset classes and sub-asset classes had positive absolute returns for the fiscal year. Evaluating the Fund on a five-year basis, only the Inflation Sensitive and Alternative Investments had positive value added. This is mostly attributable to the strong returns in the infrastructure portfolio. In the equity asset class, the public equities returns were mostly positive relative to their benchmarks. The majority of the underperformance stemmed from the large negative relative performance in the private equity portfolio.

Fixed Income

At March 31, 2011, the fair value of fixed income and money market securities totaled 26.3 per cent of total investments, up from 25.5 per cent the previous year.

Fixed income securities are primarily held in corporate bonds, provincial and municipal bonds, Government of Canada bonds and mortgages.

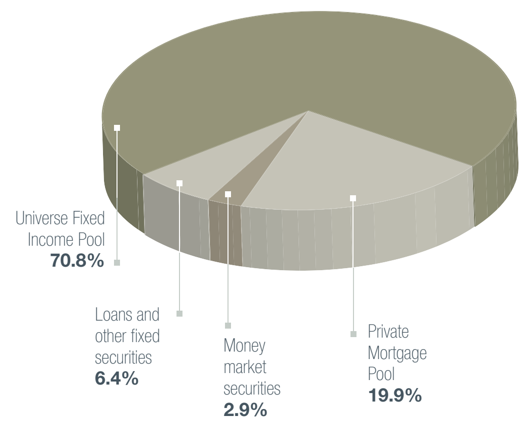
Money market investments primarily include short-term, interest-bearing securities issued by banks, various levels of government and major corporations. Money market investments only made up $119 million of the portfolio and returned 0.9 per cent, which was better than the benchmark of 0.8 per cent. The policy of the Fund is not to have too much money in cash, but a small cash balance is inevitable because of the daily flows of money.

In 2010-2011, the overall fixed income and money market portfolio earned 6.9 per cent, 1.9 per cent greater than the benchmark of 5.0 per cent. AIMCo was able to outperform the Fund's benchmark due to a higher weight in corporate bonds compared to the benchmark.

Another primary driver of the performance in Fixed Income was the narrowing of credit spreads in the Commercial Mortgage Backed Securities (CMBS) market. In 2009, when corporate credit spreads tightened, CMBS spreads remained wide. This discrepancy corrected itself in 2010-11 as CMBS spreads returned to normal levels.

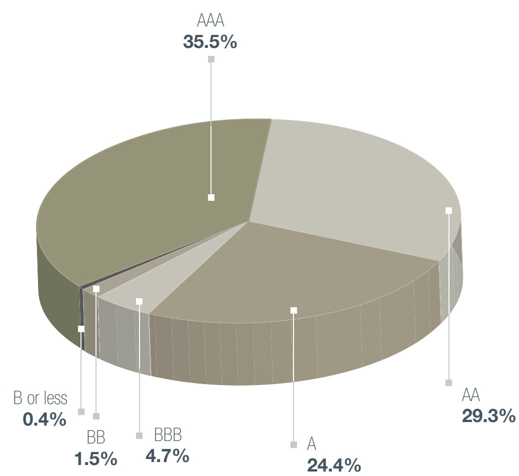
Fixed Income and Money Market Investments

Total $4.073 billion



Summary of Heritage Fund Public Fixed Income Ratings*

as at March 31, 2011



**Does not need to add to 100% as the Fund holds unrated debt.*

Inflation Sensitive and Alternative Investments

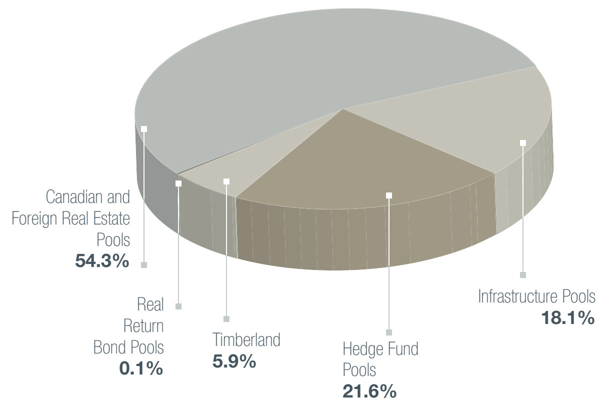
At March 31, 2011, inflation-sensitive investments made up 23.7 per cent total investments, up from 21.3 per cent the previous year. Inflation-sensitive investments provide stable returns relative to inflation. More than half of inflation-sensitive investments are in real estate, with the balance invested in infrastructure, hedge funds, timberlands, and real return bonds.

The overall combined return for inflation-sensitive and alternative investments in 2010-11 was 12.6 per cent, 3.8 per cent greater than the benchmark return of 8.8 per cent. This positive performance can be attributed to strong relative performance in hedge funds and real estate. The illiquid nature of most of the inflation-sensitive and alternative investments creates a valuation lag, where these assets are continually playing catch up to the more liquid public markets.

The real return bond investment was a strategic investment by AIMCo, given the Heritage Fund had no policy allocation to that asset class. Over the last year, the exposure to real return bonds has been reduced to approximately $5 million.

Summary of Inflation Sensitive Investments

Total $3.658 billion



Real Estate

At March 31, 2011, the Fund's investment in real estate pools was $1.987 billion, up $373 million from $1.614 billion at the end of the previous year. Real estate holdings are primarily Canadian (93 per cent) with a small portion in foreign real estate (seven per cent). The Fund continues to expand its foreign real estate holdings.

Over the long term, the real estate program was negatively affected by the 2009 real estate crash, given the portfolio had higher concentrations of investment in Calgary and the U.S. compared to the benchmark. The high concentration in the Calgary officemarket was also affected by decreases in oil and gas prices following the market crisis. These markets have since rebounded sharply.

The Canadian holdings primarily include office and retail properties (73 per cent), with the remaining properties in industrial, residential, land and development and other pooled funds. Approximately half of the properties are located in Ontario. One third of the properties are in Alberta, with the remainder held in Quebec and British Columbia. The focus is on quality properties with strong locations and tenants.

Top 5 Real Estate Holdings*

as at March 31

Yorkdale Shopping Centre	Retail	Toronto
Square One	Retail	Toronto
Bow Valley Square	Office	Calgary
Toronto Dominion Square	Office	Calgary
Scarborough Town Centre	Retail	Toronto

**represents partial investment*

Yorkdale Shopping Centre

- *Premier shopping centre in Toronto, with 240 stores*
- *1.4 million square feet; to be expanded by an additional 160,000 square feet*
- *Among the highest sales per square foot in Canada*

Infrastructure/Private Debt

Infrastructure and private debt investments totalled $662 million at March 31, 2011, up $160 million from the previous year. Infrastructure includes investments in projects that provide attractive returns plus inflation sensitivity with a long investment horizon. 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/Private Debt returned 8.1 per cent compared to its benchmark return of 8.2 per cent. The infrastructure portfolio that AIMCo manages is also going through a transition, with AIMCo looking for direct investments. AIMCo recently announced a large, direct investment in the Chilean toll road Autopista Central. The deal closed subsequent to year end.

Timberlands

Investments in Canadian and foreign timberland totalled $216 million at March 31, 2011, up $133 million from the previous year. The Canadian investment accounts for one-third of the total timberland investment and primarily includes an ownership interest in timber and related land located in British Columbia. The remaining two-thirds of the timberland investments are outside Canada, primarily in Australia. The increase in timberland investments can be attributed to the large investment made in Great Southern Plantations during the early part of 2011.

The Timberland portfolio returned 9.6 per cent versus its benchmark return of 6.2 per cent.

Hedge Funds

Hedge Fund holdings (absolute return strategies) totalled $788 million at March 31, 2011, up $5 million from the previous year. This class of investment encompasses a wide variety of strategies, with the objective of realizing positive returns regardless of the overall market direction. AIMCo is currently consolidating their hedge fund portfolio, reallocating assets to fund managers with superior risk-adjusted returns and fairly uncorrelated strategies.

Hedge Funds returned 14.0 per cent for the 2010-11 fiscal year, which easily exceeded its benchmark of 4.1 percent.

Top 5 Infrastructure Holdings*

as at March 31

Property	Sector	Geography
Puget Sound Energy	Integrated Utilities	US
Frequency Infrastructure Group	Communication	AUS/UK
First Wind	Power Generation	US
Compania Logistica de Hidrocarburos	Pipelines & Midstream	Spain
Thames Water	Water	UK

**represents partial investment*

Puget Sound Energy

- *Washington State's oldest and largest regulated power and gas utility provider*
- *Service area of 6,000 square miles*
- *Serves 1.8 million customers*

Equities

The Heritage Fund's equity portfolio returned 11.8 per cent. After a negative start in the first quarter of the 2010-11 fiscal year, the equity markets roared back to post better-than-expected returns for the remaining three quarters. Of the 11.8 per cent return on equities, 0.2 per cent was attributed to AIMCo's ability to add value, as the benchmark return for equities was 11.6 per cent. The equity portfolio at March 31, 2011, made up 50 per cent of the total portfolio, with a total of $7.7 billion invested. This is down from 53.2 per cent, or $7.6 billion, at the end of the fiscal year

Canadian Equities

A strong commodity market coming out of the 2008-09 recession propelled the S&P/TSX Composite to a 20.4 per cent return for the year ended March 31, 2011. The returns of the Energy and Material sub-sectors of the S&P/TSX showed particular strength, returning 25.7 per cent and 34.2 per cent respectively. Canadian equity investments in the Fund were $1.414 billion at the end of 2010-11 fiscal year. This was a significant decrease from the $2.012 billion that was invested at the end of the previous year. This decrease is consistent with the long-term strategy for the Fund to have more global focus. The Canadian equity portfolio underperformed its benchmark by 0.5 per cent, which posting a 19.9 per cent return.

Global Equities

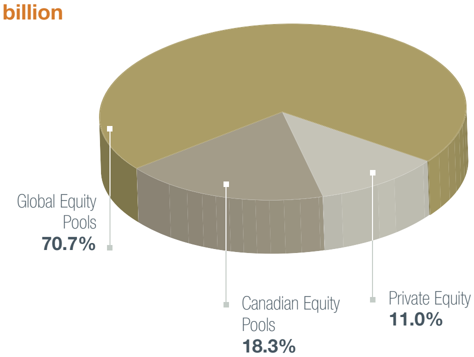
Global equities had a solid 10 per cent return versus the benchmark return of 8.1 per cent, in spite of the appreciation of the Canadian dollar of approximately 5 per cent, which reduced the returns of the Heritage Fund's foreign holdings. To illustrate: The S&P 500 index had a 15.6 per cent return in USD. When the return in U.S. dollars is translated into Canadian dollars, the return drops to 10.7 per cent.

At March 31, 2011, global equities totalled $5.457 billion, up $501 million from $4.956 billion the previous year. Approximately half of the global equity is invested in the U.S. and half in Europe, Australasia, and the Far East. A portion of global equity is invested in structured equity products using index swaps and futures contracts, which replicate exposure to global equity markets. Emerging market public equities include investments in economies that are in the early stages of development, have sufficient market size and liquidity, and have an investment climate that is receptive to foreign investors. China, Brazil, Korea, Taiwan and Russia make up about 66 per cent of the emerging markets.

The Global Equity Pool contains some investments that are in Canadian companies.

Summary of Equity Investments by Pool

Total $7.716 billion



Top 10 Canadian Equity Pool Holdings

as at March 31

Company	% of Total Canadian Equity
Royal Bank of Canada	4.3%
TD Bank	3.5%
Suncor Energy	3.2%
CIBC	3.2%
Barrick Gold Corp	3.2%
Bank of Nova Scotia	3.2%
Encana Corp	2.5%
Potash Corp	2.5%
Teck Resources Ltd	2.3%
Canadian Natural Resources	2.2%
Top 10 Total	**30.1%**

Precision Drilling

- *Canada's largest oilfield services company and a leading North American contract drilling company*
- *Operates in virtually all oil & gas basins in North America*
- *Revenues of $1.43 billion in 2010*

Top 10 Global Equity Pool Holdings

as at March 31

Company	% of Total Global Equity
Precision Drilling	4.1%
Viterra Inc	4.0%
TNT NV	3.3%
Exxon Mobil Corp	2.0%
Apple Inc	1.5%
Canadian Pacific Railway	1.2%
All American Latina Logistic	1.1%
JP Morgan Chase & Co	1.0%
Chinook Energy Inc	1.0%
General Electric Co	1.0%
Top 10 Total	**20.2%**

Viterra Inc

- *Global food ingredients company*
- *Sourced and marketed grain delivered to customers in more than 50 countries*
- *Revenue of $8.3 billion in 2010*

Private Equities

Private Equity Top 5 Holdings*

as at March 31

Company	Sector
Chinook Energy	Energy
Tomkins Limited	Industrial
Bonanza Creek Energy	Energy
Petro Tiger	Energy
Klemke Mining Corporation	Industrial

**represents partial investment*

Canadian and foreign private equities totalled $845 million at March 31, 2011, up $168 million from $677 million the previous year. Private equity investments primarily include buyout investments such as expansion capital, acquisition financings, management buyouts, family succession, turnaround financings, project financings and leverage reductions. AIMCo is in the process of implementing a new strategy for the private equity portfolio. The new strategy is focused on divesting some of the fund of fund type investments, freeing up capital for more opportunistic direct transactions.

Currency Exposure

The Heritage Fund invests in a globally diversified portfolio, but remains predominantly a Canadian Dollar Fund. The current policy of the Fund is not to hedge away the currency risk. The majority of the Fund's assets are denominated in Canadian Dollars, which amounts to 61.7% of the Fund at March 31, 2011. This is down from the previous year, when the Fund had 63.4% invested in Canadian Dollar denominated assets. The rest of the assets are allocated globally in 37 other currencies, the main ones being the US dollar, euro, Japanese yen, and British pound.

Currency Exposure

as at March 31		**2011**	**2010**
CAD	Canadian Dollar	61.7%	63.4%
USD	US Dollar	19.9%	19.4%
EUR	Euro	5.4%	6.6%
GBP	British Pound	3.2%	3.1%
JPY	Japanese Yen	3.1%	2.1%
AUD	Australian Dollar	2.2%	0.8%
CHF	Swiss Franc	1.0%	1.1%
Other		3.5%	3.4%
Total		**100.0%**	**100.0%**

Historical Summary

May 19, 1976 to March 31, 2011

(in millions)

Fiscal Year	NET INCOME (LOSS) (a)	TRANSFERS TO THE FUND: Resource Revenue Allocation	New Deposits	Advanced Education Endowment (b)	TRANSFERS (FROM) THE FUND: Section 8 (2) Income Transfers (c)		Capital Project Expenditures	Fund Equity, at cost
1976-77	$88	$2,120	-	-	-		($36)	$2,172
1977-78	194	931	-	-	-		(87)	3,210
1978-79	294	1,059	-	-	-		(132)	4,431
1979-80	343	1,332	-	-	-		(478)	5,628
1980-81	724	1,445	-	-	-		(227)	7,570
1981-82	1,007	1,434	-	-	-		(349)	9,662
1982-83	1,482	1,370	-	-	(867)		(296)	11,351
1983-84	1,467	720	-	-	(1,469)		(330)	11,739
1984-85	1,575	736	-	-	(1,575)		(228)	12,247
1985-86	1,667	685	-	-	(1,667)		(240)	12,692
1986-87	1,445	217	-	-	(1,445)		(227)	12,682
1987-88	1,353	-	-	-	(1,353)		(129)	12,553
1988-89	1,252	-	-	-	(1,252)		(155)	12,398
1989-90	1,244	-	-	-	(1,244)		(134)	12,264
1990-91	1,337	-	-	-	(1,337)		(150)	12,114
1991-92	1,382	-	-	-	(1,382)		(84)	12,030
1992-93	785	-	-	-	(785)		(84)	11,946
1993-94	1,103	-	-	-	(1,103)		(71)	11,875
1994-95	914	-	-	-	(914)		(49)	11,826
1995-96 (e)	1,046	-	-	-	(1,046)		-	11,826
1996-97	932	-	-	-	(756)	**(d)**	-	12,002
1997-98	947	-	-	-	(922)	**(d)**	-	12,027
1998-99	932	-	-	-	(932)		-	12,027
1999-00	1,169	-	-	-	(939)	**(d)**	-	12,257
2000-01	706	-	-	-	(706)		-	12,257
2001-02	206	-	-	-	(206)		-	12,257
2002-03	(894)	-	-	-	-		-	11,363
2003-04	1,133	-	-	-	(1,133)		-	11,363
2004-05	1,092	-	-	-	(1,092)		-	11,363
2005-06	1,397	-	1,000	750	(1,015)	**(d)**	-	13,495
2006-07	1,648	-	1,000	250	(1,365)	**(d)**	-	15,028
2007-08	824	-	918	-	(358)	**(d)**	-	16,412
2008-09	(2,574)	-	-	-	-		-	13,838
2009-10	2,006	-	-	-	(2,006)		-	13,838
2010-11	1,080	-	-	-	(720)	**(d)**	-	14,198
TOTAL	**$31,306**	**$12,049**	**$2,918**	**$1,000**	**($29,589)**		**($3,486)**	**$14,198**

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 Finance and Enterprise 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 and Enterprise.

d) Includes amount retained in the Fund for inflation-proofing represented by the difference between net income and amount transferred to GRF. At March 31, 2011, the accumulated amount retained in the Fund for inflation-proofing was $1,922 million (2010: $1,562 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.

Audited Financial Statements

March 31, 2011

Independent Auditor's Report

To the Minister of Finance and Enterprise

Report on the Financial Statements

I have audited the accompanying financial statements of the Alberta Heritage Savings Trust Fund, which comprise the statement of financial position as at March 31, 2011, and the statements of operations and net assets, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Alberta Heritage Savings Trust Fund as at March 31, 2011, and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[Original signed by Merwan N. Saher, CA]
Auditor General

May 31, 2011

Edmonton, Alberta

Statement of Financial Position

As at March 31, 2011

(in millions)

	2011	2010
Assets		
Portfolio investments (Note 3)	$ 14,455	$ 13,820
Receivable from sale of investments and accrued income	19	25
	$ 14,474	$ 13,845
Liabilities		
Due to the General Revenue Fund	$ 276	$ 6
Administration expense payable	-	1
	276	7
Net Assets (Note 5)	14,198	13,838
	$ 14,474	$ 13,845

Statement of Operations and Net Assets

Year Ended March 31, 2011

(in millions)

	2011		2010
	Budget	Actual	Actual
Investment income (Note 6)	$ 1,050	$ 1,152	$ 2,077
Investment expenses (Note 7)	(74)	(72)	(71)
Net income	976	1,080	2,006
Transfers to the General Revenue Fund (Note 5b)	(685)	(720)	(2,006)
Net income retained in the Fund (Note 5b)	$ 291	360	-
Net Assets at beginning of year		13,838	13,838
Net Assets at end of year		$ 14,198	$ 13,838

The accompanying notes are part of these financial statements.

Statement of Cash Flows

Year Ended March 31, 2011

(in millions)

	2011	2010
Operating transactions		
Net income	$ 1,080	$ 2,006
Non-cash items included in net income	(136)	(149)
	944	1,857
Decrease (increase) in accounts receivable	6	(5)
Decrease in accounts payable	(1)	-
Cash provided by operating transactions	949	1,852
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	2,656	10,833
Purchase of investments	(3,133)	(10,702)
Cash (applied to) provided by investing transactions	(477)	131
Transfers		
Transfers to the General Revenue Fund	(720)	(2,006)
Increase in amounts due to the General Revenue Fund	270	6
Cash applied to transfers	(450)	(2,000)
Increase (decrease) in cash	22	(17)
Cash at beginning of year	83	100
Cash at end of year	$ 105	$ 83
Consisting of Deposits in the Consolidated Cash Investment Trust Fund (Note 3a)	$ 105	$ 83

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

March 31, 2011
(in millions)

NOTE 1 AUTHORITY AND MISSION

The Alberta Heritage Savings Trust 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

These financial statements are prepared in accordance with Canadian public sector accounting standards.

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

a) PORTFOLIO INVESTMENTS

Investments held directly by the Fund or by pooled investment funds are recorded at cost. Cost includes the amount of applicable amortization of discount or premium using the straight-line method over the life of the investments.

Investments in loans are recorded at cost less any allowance for credit loss. Where there is no longer reasonable assurance of timely collection of the full amount of principal and interest of a loan, a specific provision for credit loss is made and the carrying amount of the loan is reduced to its estimated realizable amount.

Investments are recorded as of the trade date.

The cost of disposals is determined on the average cost basis.

Where there has been a loss in value of an investment that is other than a temporary decline, the investment is written down to recognize the loss. The written down value is deemed to be the new cost. Where the fair value remains less than cost, after recording a writedown, it is management’s best judgement that the decline in value is caused by short-term market trends and is temporary in nature.

b) INVESTMENT INCOME AND EXPENSES

Investment income and expenses, as reported in Notes 6 and 7, are recorded on the accrual basis. Investment income is accrued when there is reasonable assurance as to its measurement and collectability. When a loan becomes impaired, recognition of interest income in accordance with the terms of the original loan agreement ceases. Any subsequent payments received on an impaired loan are applied to reduce the loan’s book value. For certain investments such as private equities, private infrastructure, private real estate, absolute return strategies and timberland investments, the actual income and expenses may not be known at the time the financial statements are prepared. In these cases, estimates may be used, which may vary from actual income and expenses.

Net recognized gains and losses arising as a result of disposals of investments, including those arising from derivative transactions, are included in the determination of investment income.

Changes in fair value of derivative contracts are included in investment income except for certain derivative contracts designated as hedges of market risks for purposes of hedge accounting. Hedge accounting recognizes gains and losses from derivatives in the statement of income in the same year as the gains and losses of the security being hedged.

Where a hedge relationship is designated, the hedge is documented at inception. The documentation identifies the specific asset being hedged, the risk that is being hedged, type of derivative used and the matching of critical terms of both the hedged security and the hedging derivative for purposes of measuring effectiveness. The derivative must be highly effective in accomplishing the objective of offsetting either changes in the fair value or cash flows attributable to the risk being hedged both at inception and over the life of the hedge. When the derivative no longer qualifies as an effective hedge, the hedge accounting is discontinued prospectively. If hedge accounting is discontinued, gains and losses resulting from the changes in fair value of the derivative contract are recognized in income immediately.

c) FOREIGN CURRENCY

Foreign currency transactions 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. Exchange differences on transactions are included in the determination of investment income.

d) VALUATION OF INVESTMENTS

Portfolio investments are recorded in the financial statements at cost. The fair value of investments is provided for information purposes and is disclosed in Note 3.

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.

Measurement uncertainty exists in the fair values reported for certain investments such as private equities, private infrastructure, private debt and loans, private real estate, absolute return strategy hedge funds, timberland investments, and other investments where no readily available market exists. 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 values that would have been used had a ready market existed for these investments.

Changes in estimated fair value of investments are reported in the period in which new information is received.

The methods used by the Alberta Investment Management Corporation (AIMCo) to determine fair value of investments held either by the Fund or by pooled investment funds is explained in the following paragraphs:

i) Public interest-bearing securities and 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.

ii) Mortgages and private interest-bearing debt are valued based on the net present value of future cash flows. These cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market.

iii) The fair value of private equities and infrastructure investments is estimated by managers or general partners of private equity and infrastructure funds, pools and limited partnerships. Valuation methods 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.

iv) The estimated fair value of 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 the discounted cash flows.

v) The fair value of Absolute Return Strategy Pool investments is estimated by external managers.

vi) The fair value of loans is estimated by management based on the present value of discounted cash flows.

vii) The fair value of timberland investments is appraised annually by independent third party evaluators.

viii) The fair value of deposits, receivables, accrued interest and payables is estimated to approximate their book values.

e) VALUATION OF DERIVATIVE CONTRACTS

Derivative contracts include equity and bond index swaps, interest rate swaps, cross-currency interest rate swaps, credit default swaps, forward foreign exchange contracts, equity index futures contracts, warrants and swap option contracts. As disclosed in Note 3, the value of derivative contracts is included in the fair value of pooled investment funds. The estimated amount receivable or payable from derivative contracts at the reporting date is determined by the following methods:

i) Equity and bond index swaps are valued based on changes in the appropriate market-based index net of accrued floating rate interest.

ii) Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates.

iii) Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities.

iv) Forward foreign exchange contracts and futures contracts are valued based on quoted market prices.

v) 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.

vi) 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 3 PORTFOLIO INVESTMENTS (in millions)

	2011									2010						
	Cost		Fair Value		%		Cost		Fair Value		%
Interest-bearing securities											
Deposits and short-term securities [a]	$	119	$	119	0.7	$	123	$	123	0.8
Bonds and mortgages [b]		3,948		3,954	25.6		3,546		3,550	24.7
		4,067		4,073	26.3		3,669		3,673	25.5
Equities										
Canadian [c]		1,214		1,414	9.2		1,843		2,012	14.0
Global developed [d]		5,141		5,412	35.0		4,815		4,917	34.2
Emerging markets [e]		46		45	0.3		42		39	0.3
Private [f]		797		845	5.5		667		677	4.7
		7,198		7,716	50.0		7,367		7,645	53.2
Inflation sensitive and alternative investments										
Real estate [g]		1,544		1,987	12.9		1,302		1,614	11.2
Inflation sensitive real return bonds [h]		4		5	-		80		82	0.6
Infrastructure [i]		641		587	3.8		580		502	3.5
Absolute return strategy hedge funds [j]		720		788	5.1		738		783	5.4
Timberland [k]		205		216	1.4		84		83	0.6
Private debt and loan [l]		76		75	0.5		-		-	-
		3,190		3,658	23.7		2,784		3,064	21.3
Total Investments [m]	**$**	**14,455**	**$**	**15,447**	**100.0**	**$**	**13,820**	**$**	**14,382**	**100.0**

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 investment policies approved by the Minister of Finance and Enterprise. The majority of the Fund's investments, in each asset class, are held in pooled investment funds established and administered by AIMCo. Pool units represent the Fund's proportionate share of securities held in the pooled fund. Pooled investment funds have a market based unit value that is used to allocate income to participants of the pool and to value purchases and sales of 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).

a) Deposits and short-term securities includes deposits in the Consolidated Cash Investment Trust Fund (CCITF), being cash as reported in the Statement of Cash Flows, of $105 (2010: $83) and short-term securities of $14 (2010: $40). These investments include primarily short-term and mid-term interest-bearing securities which have a maximum term to maturity of less than three years. At March 31, 2011, deposits in CCITF had a time-weighted return of 1.1% per annum (2010: 1.0% per annum).

b) Interest-bearing bonds and mortgages include government direct and guaranteed bonds and mortgage-backed securities, corporate bonds and asset-backed securities, private debt issues, private mortgages, repurchase agreements, debt related derivatives and loans. At March 31, 2011, interest bearing bonds and mortgages had an average effective market yield of 4.5% per annum (2010: 5.0% per annum) and the following term structure based on principal amount: under 1 year: 11% (2010: 3%); 1 to 5 years:

32% (2010: 33%); 5 to 10 years: 31% (2010: 36%); 10 to 20 years: 13% (2010: 13%); and over 20 years: 13% (2010: 15%).

Included in bonds and mortgages are two policy investments held in the Fund prior to its restructuring in 1996-97. These policy investments include an 11% participating first mortgage bond with principal and deferred interest totaling $169 (2010: $173) due July 31, 2015 and a loan with principal of $53 due July 2046. At March 31, 2011, these policy investments have carrying values, excluding accrued interest, of $145 and $3 respectively (2010: $129.5 and $3). The increase in carrying value of the first mortgage bond resulted from a reduction in the provision for decline in estimated realizable value.

c) The Fund's Canadian public equity portfolio includes directly held investments in Canadian public companies and indirect exposure to Canadian public equity markets through structured equity products using index swaps and futures contracts linked to the Standard and Poor's Toronto Stock Exchange (S&P/TSX) Composite Index and S&P/TSX 60 Index.

d) The global developed market is used to describe countries whose economies and capital markets are well established and mature. The Fund's global developed public equity portfolio includes directly held investments in public companies in the U.S., Europe, Australasia and the Far East (EAFE), emerging markets and Canada. The Fund's indirect exposure to global developed markets and emerging markets is also attained by investing in structured equity products using index swaps and futures contracts linked to the Morgan Stanley Capital International (MSCI) World Total Return Index, MSCI EAFE Index, S&P 500 Index and Emerging Markets Free Net Index. A component of the Fund's global portfolio includes investments in North American concentrated equities which include larger holdings in mid-size Canadian and American companies ranging from 5% to 20% of outstanding common shares.

e) Emerging markets equities consist of publicly traded equities in countries in the process of rapid growth and industrialization such as Brazil, Russia, India and China. The portfolio is actively managed by external managers with expertise in emerging markets.

f) Canadian and foreign private equity investments include primarily merchant banking investments. Merchant banking transactions include expansion capital, acquisition financing, management buyouts, family succession, turnaround financings, project financings and leverage reductions.

g) The real estate portfolio is primarily held in Canada. Real estate is held through intermediary companies, which issue common shares and participating debentures secured by a charge on real estate. Risk is reduced by investing in properties that provide diversification by geographic location, by property type and by tenancy. Real estate returns are positively correlated to inflation and negatively correlated to returns from fixed income securities and equities which provide diversification from the securities market with opportunities for high return.

h) The real rate of return bond portfolio is primarily made up of bonds that are issued or guaranteed by the Government of Canada, and bear interest at a fixed rate adjusted for inflation.

i) Infrastructure investments include investments that are structured to provide high returns plus inflation sensitivity with a long investment horizon. Investments may include transportation and logistic investments (e.g. toll roads, airports, ports and rail), power or energy investments (e.g. contracted power generation, power transmission pipelines) and utilities (e.g. water, waste water, natural gas networks).

j) The absolute return strategies (hedge funds) use external managers who employ various investment strategies which are expected to produce absolute positive investment returns with lower volatility. Investments are made through multi-hedge fund-of-funds and direct investments to increase strategy diversification.

k) Canadian and foreign timberland investments are inflation sensitive and long-duration. The Canadian timberland investment includes an interest in timber and related land located in the Province of British Columbia. The foreign investment primarily includes forestry and agricultural land in Australia.

l) Private debt and loan investments are in Canada, the United States and Europe. The debt will generally be unrated and if rated would be non-investments grade, i.e. BB and lower. These investments may include senior seured loans, leverages loans, mezzanine debt and convertible debt.

m) Included in the fair value of the Fund's investments in various pooled funds, summarized in Note 3 by asset class, is the fair value of derivative contracts. A derivative is a financial contract with the following three characteristics (1) its value changes in response to the changes in a specified interest rate, equity or bond index price, foreign exchange rate or credit rating; (2) it requires no initial net investment or the initial investment is smaller than required for exposure to a similar investment market and (3) it is settled in the future. AIMCo uses various types of derivative contracts in the pooled investment funds to gain access to equity markets and enhance returns, manage exposure to interest rate risk, currency risk and credit risk and for asset mix purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows with a counter-party. At March 31, 2011, the net fair value of derivative related investments, including deposits in futures contracts margin accounts, totalled $197 million or 1.3% of total investments (March 31, 2010: $223 million or 1.6% of total investments).

The following is a summary of the Fund's proportionate share of the notional amount and fair value for each class of derivative financial instrument included in the fair value of the investments (Note 3) at March 31, 2011 (in millions):

	Maturity			2011		2010	
Purpose	Under 1 year	1 to 3 Years	Over 3 Years	Notional Amount (a)	Fair Value (b)	Notional Amount (a)	Fair Value (b)
Interest rate derivatives (c)	42%	27%	31%	$ 1,947	$ 10	$ 1,511	$ 6
Equity replication derivatives (d)	100%	-	-	8,024	30	4,326	71
Foreign currency derivatives (e)	100%	-	-	6,889	38	3,232	50
Credit risk derivatives (f)	50%	15%	35%	1,811	(17)	2,297	(18)
Derivative related receivables, net					61		109
Deposits in futures contracts margin accounts					136		114
Net derivative related investments (included in Note 3)					$ 197		$ 223

(a) The notional amounts upon which payments are based are not indicative of the credit risk associated with derivative contracts. Current credit exposure is represented by the current replacement cost of all outstanding contracts in a favourable position (positive fair value).

(b) The method for determining the fair value of derivative contracts is described in Note 2(e).

(c) Interest rate derivatives allow the Fund to exchange interest rate cash flows (fixed, floating and bond index) based on a notional amount. Interest rate derivatives primarily include interest rate swaps and cross currency interest rate swaps, bond index swaps and futures contracts and options.

(d) Equity replication derivatives provide for the Fund to receive or pay cash based on the performance of a specified market-based equity index, security or basket of equity securities applied to a notional amount. Equity derivatives primarily include equity index swaps, futures contracts and rights, warrants and options.

(e) 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.

(f) Credit risk derivatives include credit default swaps allowing the Fund 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.

NOTE 4 INVESTMENT RISK MANAGEMENT

The Fund is exposed to financial risks associated with its investment activities. 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 Statement of Investment Policies and Goals (SIP&G) approved by the Minister of Finance and Enterprise. 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 Finance and Enterprise 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 3). In order to earn the best possible return at an acceptable level of risk, the Minister approved the following long-term asset mix policy ranges:

Interest-bearing securities	15 – 45 %
Equities	35 – 70 %
Inflation sensitive and alternative investments	15 – 40 %

Credit Risk

Counterparty credit risk is the risk of loss arising from the failure of a counterparty to fully honour its financial obligations with the Fund. The credit quality of financial assets is generally assessed by reference to external credit ratings. Credit risk can also lead to losses when issuers and debtors are downgraded by credit rating agencies usually leading to a fall in the fair value of the counterparty's obligations. Credit risk exposure for financial instruments is measured by the positive fair value of the contractual obligations with counterparties. The fair value of all investments reported in Note 3 is directly or indirectly impacted by credit risk to some degree. Interest bearing securities, reported in Note 3, primarily include investment grade bonds, notes and short-term securities issued by governments and corporations and privately issued mortgage and debt securities. Investment grade securities are those issued by counterparties that have a credit rating of BBB (moderately safe investment) to AAA (safe investment with almost no counterparty credit risk).

Foreign currency risk

A portion of the Fund's investments is denominated in currencies other than the Canadian dollar and are therefore exposed to foreign currency risk. 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. A ten percent increase in the value of the Canadian dollar against all currencies, with all other variables and underlying values held constant, would result in an approximate decrease in the fair value of the Fund's investments by $705 million (2010: $586 million).

Interest rate risk

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. A one percent increase in interest rates, with all other variables held constant, would result in an approximate decrease in the fair value of the Fund's interest bearing investments of $211 million (2010: $213 million).

Price risk

Price risk relates to the possibility that equity investments will change in fair value due to future fluctuations in market prices caused by factors specific to an individual equity investment or other factors affecting all equities traded in the market. The Fund's investments are recorded at cost. Changes in fair value of investments are recognized upon sale of the investment. A ten percent decrease in equity market indices, with all other variables held constant, would result in an approximate decrease in the fair value of the Fund's equity investments by approximately $670 million (2010: $725 million).

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 publicly traded liquid assets traded in an active market that are easily sold and converted to cash. These sources of cash are used to pay operating expenses, purchase new investments, and settle derivative transactions with counterparties and margin calls on futures contracts. The Fund's main liabilities include transfers payable to the General Revenue Fund and payables for investment purchases.

NOTE 5 NET ASSETS (in millions)

Net assets represent the difference between the carrying value of 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	
	2011	**2010**
Accumulated net income	$ 31,306	$ 30,226
Transfers to the Fund		
Resource Revenue (1976-1987)	12,049	12,049
Access to the Future [(a)]	1,000	1,000
Voted Payments	2,918	2,918
	15,967	15,967
Transfers (from) the Fund		
Section 8(2) transfers [(b)]		
Income	(31,511)	(30,431)
Amount Retained for Inflation-proofing	1,922	1,562
	(29,589)	(28,869)
Capital Expenditures (1976-1995) [(c)]	(3,486)	(3,486)
	(33,075)	(32,355)
Net Assets, at cost	**$ 14,198**	**$ 13,838**
Net Assets, at fair value	**$ 15,190**	**$ 14,400**

(a) Section 9.1 of the Act and Section 4(5) of the Access to the Future Act provides that up to $3 billion may be transferred from the GRF to the fund,

(b) In accordance with section 8(2) of the Alberta Heritage Savings Trust Fund Act (the Act), the Fund transferred $720 million to the GRF for the year. The Act states that the net income of the Heritage Fund, totalling $1,080 million, less any amount retained in the Fund to maintain its value, in accordance with section 11(1), totalling $360 million, shall be transferred to the GRF annually in a manner determined by the Minister of Finance and Enterprise. The estimated amount retained from income of the Fund is determined by multiplying the total equity of the Fund before the amount retained for inflation proofing by the estimated percentage increase in the Canadian gross domestic product implicit price index (GDP Deflator Index) for the year. In accordance with section 11(3), if the GDP Deflator Index is a negative number, that negative number shall be treated as if it were zero.

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

NOTE 6 NET INVESTMENT INCOME (in millions)

The following is a summary of the Fund's investment income and expenses by asset class:

	2011			2010		
	Gross Income	Expenses	Net Income	Gross Income	Expenses	Net Income
Foreign equities	$ 311	$ 14	$ 297	$ 1,059	$ 16	$ 1,043
Canadian equities	288	2	286	369	3	366
Interest-bearing securities	259	3	256	278	4	274
Absolute return strategy hedge funds	98	8	90	158	8	150
Real estate	106	10	96	118	8	110
Infrastructure	29	6	23	92	6	86
Timberland	2	1	1	18	1	17
Private equities	52	21	31	(16)	19	(35)
Inflation sensitive real return bonds	7	-	7	1	-	1
Fund investment expenses	-	7	(7)	-	6	(6)
	$ 1,152	**$ 72**	**$ 1,080**	**$ 2,077**	**$ 71**	**$ 2,006**

Investment income is comprised of income earned from investments in pooled funds managed by AIMCo.

NOTE 7 INVESTMENT EXPENSES (in millions)

Investment services are provided by AIMCo. It provides the day-to-day investment services for the Fund's investment portfolio. However, in order to achieve greater diversification, access external expertise and specialized knowledge and to reduce operational complexity, some investments are managed by third party investment managers selected and monitored by AIMCo.

Investment expenses are recognized on an accrual basis and include those costs and fees incurred to earn investment income by the Fund. The Fund recognizes portfolio management and administration expenses incurred directly by the Fund and its share of expenses through pooled investment funds. Investment services provided by AIMCo are charged directly to the Fund and to pooled funds on a cost recovery basis. Investment services provided by external managers are charged to pooled funds based on a percentage of net assets under management at fair value, or committed amounts. Fees charged by external managers include primarily regular management fees and performance/incentive based fees to the extent recognized.

	2011	2010
Total Investment Expenses	**$ 72**	**$ 71**
Average fair value of investments	14,915	14,172
Percent of investments at average fair value	0.48%	0.50%

NOTE 8 INVESTMENT PERFORMANCE (net of investment expenses)

The following is a summary of the investment performance results attained by the Fund determined on a fair value basis:

Time-weighted rates of return, at fair value [a]	2011	2010	**Average Annualized Return** 5 years	10 years
Actual gain [b]	10.4%	17.8%	3.5%	5.3%
Benchmark gain [b]	9.4%	16.3%	3.8%	5.1%
Value added (lost) by investment manager [c]	1.0%	1.5%	-0.3%	0.2%

[a] The time-weighted rate of return involves the calculation of the return realized by the Fund over a specified year 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 were provided by AIMCo on April 20, 2011. Any subsequent changes to returns will be reflected in the next reporting period. The actual and policy benchmark returns are a product of the weighted average sector weights and sector returns. Some of the sector returns used in the determination of the overall actual and policy benchmark returns are based on management's best estimate which may vary significantly from the final return. Differences between the estimated sector returns and the final returns are recorded in the year of the change.

[c] In the business plan, the Minister of Finance and Enterprise expects that the investments held by the Fund will return approximately 100 basis points, or 1%, above the policy benchmark over one year.

NOTE 9 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to 2011 presentation.

NOTE 10 APPROVAL OF FINANCIAL STATEMENTS

The Deputy Minister of Finance and Enterprise approved these financial statements.

BUDGET 2011 BUSINESS PLAN SUMMARY

PURPOSE

The business plan of the Heritage Fund describes the statutory mission, investment goals, strategies and performance measures and policy benchmarks. The business plan is prepared annually and is published as part of the Provincial budget. The business plan is then reviewed and approved by the Minister of Finance and Enterprise, the Treasury Board and the Legislature's Standing Committee on the Alberta Heritage Savings Trust Fund.

STATUTORY MISSION

The statutory mission of the Fund is:

"To provide prudent stewardship of the savings from Alberta's non-renewable resources by providing the greatest financial returns on those savings for current and future generations of Albertans."

GOALS AND PERFORMANCE MEASURES

The two main goals of the Fund and their related performance measures, as outlined in the Fund's business plan, are as follows:

1. **Long-term returns are maximized at a prudent level of risk.**

   The investment income of the Fund is an important component of the government's fiscal plan. The net income of the Fund, except for amounts retained for inflation-proofing, is transferred to the GRF and used to fund Albertans' priorities. The Fund must be invested in such a way as to maximize returns over the long-term while adopting a prudent investment strategy that balances the level of risk with the goal of high portfolio returns.

Key Strategies

- Through an on-going review process, ensure the asset mix is best positioned to achieve the goal of maximizing long-term returns at a prudent level of risk. The Fund's Investment Policy Statement, established by the Minister of Finance and Enterprise, sets out the policy asset mix which includes a globally diversified portfolio in both public and private equities, fixed income and real assets.

- Develop a framework for measurement and reporting of the risks associated with the investment of the Heritage Fund to ensure risk is being kept within prudent levels.

Key Performance Measures

The table below describes the various types of investments (asset classes) the Fund can invest in according to the business plan. Each asset class is assigned a target asset mix within a minimum and maximum range. An overall policy benchmark return of the Fund represents the total of the weighted average benchmark returns for each asset class. The difference between the Fund's actual return and policy benchmark return represents the return from active management. The active management return is expected to be equal to or greater than 1.0% in 2010-11. The asset mix return is used to determine whether the target asset mix as set out in the investment policy is achieving expected returns. The asset mix return is expected to exceed the Canadian Consumer Price Index (CPI) plus 4.5%.

Asset Class	Target	Minimum	Maximum
		(in percent)	
Fixed income and money market securities	**20**	**15**	**45**
Deposits and short-term securities		0	25
Bonds and mortgages		10	35
Long bonds		0	10
Equities	**50**	**35**	**70**
Canadian		0	15
Global developed		20	65
Emerging markets		0	10
Frontier markets		0	5
Private equity		0	10
Inflation sensitive and alternatives	**30**	**15**	**40**
Real Estate		10	20
Infrastructure		5	15
Real Return Bonds		0	10
Timberland		0	5
Hedge Funds		0	10

2. Ensure the Heritage Fund aligns with the fiscal goals of the province.

The Fund is one of the largest financial assets on the province's balance sheet providing a source of revenue. In order to ensure the Fund aligns with the goals of the province, it is important to consider how the risks and return profile of the Fund interact with the overall fiscal landscape of the province.

Key Strategies

- Continue to review the effects of currency fluctuations of the Fund and determine whether a currency strategy should be applied to the Heritage Fund.

GLOSSARY

ABSOLUTE RETURN STRATEGIES
Absolute Return Strategies (Hedge Funds) encompass a wide variety of investments with the objective of realizing positive returns regardless of the overall market direction. A common feature of many of these strategies is buying undervalued securities and selling short overvalued securities. Some of the major types of strategies include long/short equity, fixed income arbitrage, merger arbitrage, macroeconomic strategies, convertible arbitrage, distressed securities and short selling.

ACCRUAL ACCOUNTING
An accounting method that recognizes income when it is earned and expenses when they are incurred, rather than when they are received or paid.

ACTIVE STATEGIES
The strategies have two forms - security selection or market timing. Security selection is the buying and selling of securities to earn a return above a market index such as the S&P/TSX Index for Canadian Stocks. Market timing is based on shifting asset class weights to earn a return above that available from maintaining the asset class exposure of the policy asset mix.

ASSET MIX
The percentage of an investment fund's assets allocated to major asset classes (for example 50% equities, 30% interest-bearing securities and 20% inflation sensitive and alternative investments).

BENCHMARK
A standard against which actual returns are measured. For the purposes of this report, benchmarks are established income indices used to measure the health of the Fund's investment income.

BOND
A financial instrument showing a debt where the issuer promises to pay interest and repay the principal by the maturity date.

CAPITAL GAIN
The market value received on sale of an asset beyond its cost or purchase price. If the asset is bought for $50 and sold for $75, the realized capital gain (profit) is $25.

COST VALUE
The value for which an asset was acquired.

CREDIT RISK
The risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

CURRENCY RISK
The risk that the fair values or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

DEPOSITS
Liquid, short-term investments. A cash equivalent.

DERIVATIVE CONTRACT
Financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates or currency rates.

DIVERSIFICATON
Spreading investments to reduce risk by buying different securities from various companies, businesses, locations and governments.

EMERGING MARKET
An economy in the early stages of development whose markets have sufficient size and liquidity and are receptive to foreign investment.

EQUITY
Stocks; the ownership interest in a company.

EXTERNAL MANAGER
A third-party firm contracted to provide investment management services.

FAIR VALUE
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. Fair value is similar to market value.

FRONTIER MARKETS
Equity markets in smaller and less accessible developing countries. These pre-emerging markets are typically pursued by investors seeking high long-term return potential.

GENERAL REVENUE FUND (GRF)
The central operating account for the Province of Alberta. It is where most of the revenues received by the Province are deposited and from where most of the expenditures are made.

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)
These are accounting guidelines formulated by the Canadian Institute of Chartered Accountants (CICA) Accounting Standards Committee (ASC), that govern how businesses and governments report their financial statements to the public. The recommendations of the Public Sector Accounting Board (PSAB) of the CICA are the primary source for the disclosed basis of accounting.

GLOBAL DEVELOPED MARKET
The global developed market is used to describe countries whose economies and capital markets are well established and mature.

INFLATION
Increases in the general price level of goods and services. Inflation is one of the major risks to investors over the long-term as savings may actually buy less in the future.

INTEREST-BEARING SECURITIES
Interest bearing investments such as bonds and debentures, and money market investments such as treasury bills and discount notes (see “Bond” and “Money Market Security”).

INTEREST RATE RISK
The risk that the fair value of future cash or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

INVESTMENT PORTFOLIO
A pool of securities held as an investment. Holdings of a diverse group of assets by an individual company or fund.

LARGE CAP
Investment in larger capitalized firms. Within Canada, companies with a market capitalization of greater than 0.15% of the total Toronto Stock Exchange market capitalization.

LIQUIDITY
The ease with which an asset can be turned into cash and the certainty of the value it will obtain.

LIQUIDITY RISK
The risk that a government fund will encounter difficulty in meeting obligations associated with financial liabilities.

LONG BONDS
Generally includes bonds with terms to maturity of greater than ten years.

MARKET VALUE
See fair value.

MARKET (VALUE) RATE OF RETURN
The market value rate of return measures income (interest and dividends) and capital appreciation or depreciation (realized and unrealized). The method used to calculate the return is the time-weighted method.

MARKETABLE SECURITY
An investment for which there is usually a ready market.

MODIFIED DURATION
A measure of price volatility of fixed income securities (i.e. bonds). It is the weighted average term-to-maturity of the security's cash flows (i.e., interest and principal). The greater the duration of a bond, the greater its percentage price volatility.

MONEY MARKET SECURITY
An interest bearing security such as treasury bills or corporate paper that matures within one year form the date of acquisition.

NET INCOME
The amount of earnings remaining after deducting expenses.

NET INVESTMENT INCOME
On a cost basis, includes realized capital gains, interest, dividends, security lending income, derivative income and administrative expenses. On a fair value basis, includes in addition to the above, current period changes in unrealized gains and losses.

NOMINAL RATE OF RETURN
A measure of return that does not exclude the effect of inflation (see Real Rate of Return).

PAR VALUE
A value set as the face or principal amount of a security, typically expressed as multiples of $100 or $1,000. Bondholders receive par value for their bonds at maturity.

PASSIVE STRATEGIES
These strategies involve investing to replicate the performance of a given market index such as the S&P/TSX Composite Index for Canadian stocks, or managing asset class exposure to match the performance of an established policy asset mix.

POOLED FUND
A fund in which money from two or more investors is accepted for investment and where units allocated to each investor serve to establish the proportionate interest at any time of each investor in the assets of the Fund.

PRICE RISK
The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

REAL RETURN BOND
A interest-bearing security (i.e. bond) that generates a specified real rate of return. The real interest rate is the nominal (set) interest rate minus inflation.

REAL VALUE OR REAL RATE OF RETURN
A measure of value or return after accounting for inflation. It is equal to the nominal value or return less an amount for inflation.

REALIZED AND UNREALIZED
Terms generally used to describe capital gains or losses. A gain or loss is realized when the asset is sold; prior to sale the gain or loss is unrealized and it is only a potential gain or loss.

SWAP
A financial agreement whereby counter parties agree to exchange the returns they earn on their respective assets. An investor might swap the return from his floating rate note portfolio for the return of a major equity index like the Standard and Poor's Toronto Stock Exchange.

SECURITY
Any investment instrument such as a bond, common stock, deed of trust on property, or any evidence of indebtedness or equity.

SHORT-TERM INVESTMENT
An investment with a maturity date of less than one year.

SHORT SELLING
A sale of securities not owned at the time of sale anticipating the price to fall and the securities to be repurchased at a profit. Short selling involves borrowing equivalent securities for delivery to a buyer and eventually buying the securities to return to the lender.

SMALL CAP
Investment in smaller capitalized firms. Within Canada, companies with a market capitalization of less than 0.15% of the total Toronto Stock Exchange market capitalization.

TERM-TO-MATURITY
The number of years left until a bond matures.

TIME-WEIGHTED RATE OF RETURN
Time-weighted rate of return are designed to eliminate the effect that the size and timing of cash flows has on the internal rate of return since the pattern of cash flows vary significantly among funds. The investment industry uses time-weighted rates of return when comparing the returns of one fund to another fund or to an index.

VOLATILITY
In financial matters, volatility of returns is the measurement used to define risk. The greater the volatility, the higher the risk.

Additional copies of this annual report and quarterly reports of the Heritage Fund and a detailed list of investments may be obtained by:

Visiting our website at:	www.finance.alberta.ca
Or by writing:	Alberta Heritage Savings Trust Fund Room 434, 9515 - 107 Street Edmonton, Alberta T5K 2C3
Or by calling:	(780) 427-5364

Government
of Alberta