Alberta Heritage Savings Trust Fund

ANNUAL REPORT 2015–2016

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HIGHLIGHTS

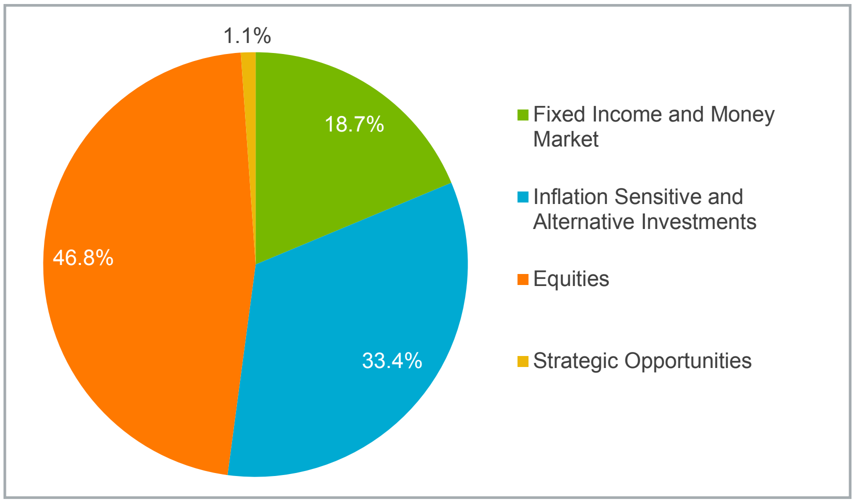
4.7% (net of fees)

1 YEAR RATE OF RETURN

$17.7 billion

FAIR VALUE OF NET ASSETS

Asset Mix as at March 31, 2016



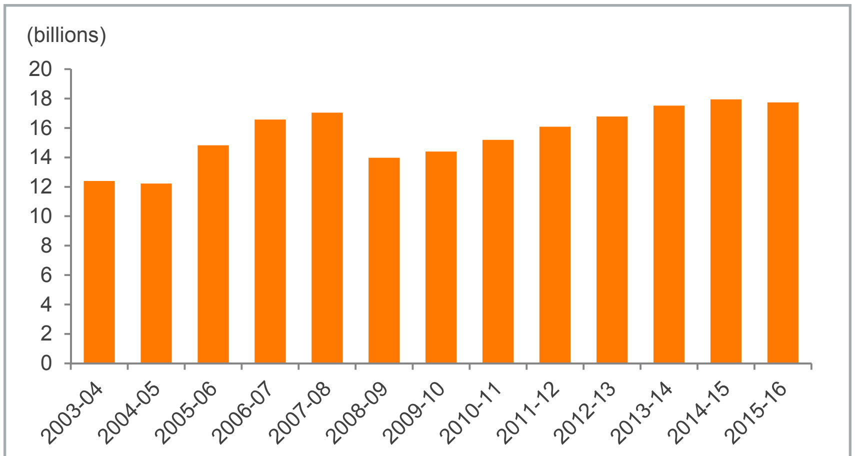
7.0% net of fees

10 YEAR RATE OF RETURN

$1,029 million

INVESTMENT INCOME TRANSFERRED TO GENERAL REVENUES

Market Value at Fiscal Year End



$209 million

INVESTMENT INCOME RETAINED FOR INFLATION-PROOFING

$39.2 billion

CUMULATIVE TRANSFERS TO GRF SINCE INCEPTION

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MESSAGE FROM THE PRESIDENT OF TREASURY BOARD, MINISTER OF FINANCE

Coming off six strong years of investment performance, the Heritage Fund posted a more modest return in 2015-16 as most developed economies had moderate growth and equity markets became more volatile as a result of low oil prices.

As Albertans know, Alberta's economy and government revenue are very dependent on oil. While we can't control the price of oil, we can control our response. Our government has chosen the path of investing in our province by taking concrete action to spur on economic diversification and growth, while lowering our dependency on resource revenue. The Heritage Fund has helped the government in this important task by diversifying investment across sectors and regions.

In the context of the economic conditions we experienced over the 2015-16 fiscal year, the Heritage Fund performed quite well, providing a 4.7 per cent rate of return while earning $1.2 billion in net income. Although the fund's performance was lower than in 2014-15, we expected a tough year in 2015-16. In the end, the fund performed better than expected, beating its overall benchmark by 4.3 percentage points as a strong return in the fund's inflation-sensitive and alternative investments helped offset lower-than-expected returns in the fund's global equities portfolio.

One key part of our plan to diversify the economy was our government's direction to use the fund to stimulate Alberta growth. In the fall 2015 budget, I announced a series of initiatives to improve access to investment capital. As part of that, I formally directed Alberta Investment Management Corporation (AIMCo) to invest up to three per cent of the Heritage Fund in Alberta companies with strong growth potential. To date, two investments worth a total of $48 million have taken place. AIMCo will continue to refine how investments are identified, reviewed and managed within the existing investment structure.

I want to assure Albertans the Heritage Fund will continue in its role as our province's long-term savings fund, supporting our priorities now and in the future. When we return to balanced budgets, we will take another look at growing our savings. In the meantime, we will stick to the plan: taking a prudent, globally diversified investment approach designed to maximize returns over the long term, while exploring promising opportunities here at home.

Honourable Joe Ceci

[Original signed by Joe Ceci]

President of Treasury Board, Minister of Finance

ABOUT THE HERITAGE FUND

1976
Inception of Fund.

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

1987
Natural resource revenue transfers halted.

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

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

WHAT IS THE HERITAGE FUND?

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

WHEN WAS THE HERITAGE FUND ESTABLISHED?

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

The Alberta government resumed depositing money into the Heritage Fund in 2005. The government allocated $3.9 billion from budget surpluses into the Fund from 2005 through 2008. Also, with the elimination of the Province's accumulated debt in 2005, legislation required a portion of investment income be retained for the purpose of inflation-proofing the Fund.

WHAT HAPPENS TO THE INCOME EARNED BY THE HERITAGE FUND?

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

In 2015-16, the Heritage Fund earned of $1,238 million in net income, $209 million of which was retained in the Fund for inflation proofing and $1,029 million was transferred to the GRF.

WHAT IS THE HERITAGE FUND WORTH TODAY?

The net financial assets of the Fund were valued at $17.7 billion on March 31, 2016.

2006

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

2007

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

2014

Record income of $2.3 billion.

2016

Alberta Growth Mandate introduced.

WHO IS RESPONSIBLE FOR THE HERITAGE FUND?

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

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

ARE THE HERITAGE FUND INVESTMENTS SECURE?

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

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

HOW HAS THE FUND PERFORMED OVER THE LONG TERM?

Since March 31, 2011 the Fair Value of the Fund has increased from $15.2 billion to $17.7 billion dollars, in part due to the legislated inflation proofing which has kept $1.2 billion in the Fund and the growth of investments. Over the last 5 years, the Fund has provided $5.9 billion in transfers to the GRF to provide for projects and programs.

HERITAGE FUND GOVERNANCE

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

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

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

The Standing Committee on the Alberta Heritage Savings Trust Fund is an all-party committee of the Legislative Assembly members who are responsible under the Act for reviewing the performance of the Heritage Fund at the end of each fiscal year and reporting to the Legislature as to whether the mission of the Fund is being fulfilled. The Committee is also responsible for approving the annual report of the Fund. The Act requires that the Committee hold an annual public meeting. The most recent annual meeting was held in November 2015 in Edmonton. This meeting was live-streamed over the internet with a live-chat allowing a greater number of Albertans to participate.

PORTFOLIO CONSTRUCTION

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

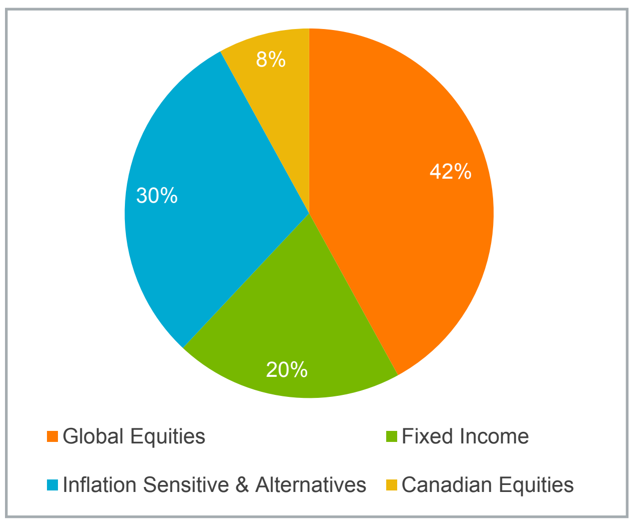
The President of Treasury Board, Minister of Finance approves the SIP&G for the Fund. This document describes the Heritage Fund's target policy portfolio. The policy portfolio provides guidelines for investment strategies available to the Fund. This base portfolio is determined through extensive financial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

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

Some key highlights of the policy portfolio are:

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

Long-Term Target Policy Asset Mix



ALBERTA GROWTH MANDATE

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

GUIDING PRINCIPLES

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

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

INVESTMENTS

AIMCo continually reviews and assesses investments which invest in Alberta growth. AIMCo has a significant due diligence process to ensure that capital is deployed prudently. Two investments have been made to date totalling $48 million under the Alberta growth mandate. AIMCo is continuing to refine the process by which investment opportunities are presented, reviewed and managed within our current investment structure.

TransAlta Renewables is a sponsored vehicle that expands the TransAlta "family" of companies. With more than 100 years of experience developing, owning and operating renewable power generation facilities, TransAlta brings in-depth knowledge of the renewable energy sector. The facilities in the portfolio consist of operational and highly-contracted renewable power generation facilities including wind, hydro and gas. The objective is to create stable cash flows and consistent returns for investors with an investment vehicle comprised of power generation assets that are fully contracted for the long-term with creditworthy counterparties.

Calfrac Well Services Ltd. is an innovative pressure pumping services provider focused on North America's premier unconventional natural gas and light oil plays plus strategic international markets. With state-of-the-art equipment – in-house R&D, a diversified customer base, an expert team of employees, experienced management and annual revenues of over $1.5 billion in 2015, Calfrac is strongly positioned for continued success.

THE 2015-16 YEAR IN REVIEW

Global growth was lackluster in 2015-2016. Most developed economies had modest economic growth, led by continuing expansion in the US. In developing economies, the story is more diverse. Growth in China remained robust, though it continued to moderate and was recently surpassed by a resurgent India. Commodity-dependent emerging markets such as Russia and Brazil continued to struggle with low commodity prices.

The US economy posted solid growth based on continued strength in consumer confidence as a robust labour market drove the unemployment rate down to 5.0 per cent and encouraged wage growth. The improving economy allowed the US Federal Reserve to increase the Federal Funds rate for the first time in 8 years. The Fed had been telegraphing the rate hike for most of 2015, leading to a strong appreciation in the US dollar. This had a dampening effect on US trade and is pressuring the Fed to take a more cautious approach to future tightening.

While the US moved towards tighter monetary policy, other global central banks moved in the opposite direction. Earlier in 2016, the Bank of Japan joined a growing number of rich world central banks paying negative interest rates on bank reserves, including the European Central Bank (ECB). This came after the ECB emulated Japan by introducing a monthly asset purchase program in early 2015. Despite these efforts, core inflation has failed to rise above one per cent in both countries, much less than their shared target of two per cent. The combination of global monetary expansion and weak inflation expectations have supressed global bond yields.

China continued to be a major contributor to the global economy even as growth moderates and the Chinese economy rebalances towards domestic consumption and away from investment and exports. This moderation has caused hiccups for the global economy. China was at the centre of two separate bouts of global financial instability, first in June 2015 and again in January 2016. In both instances, uncertainty about China's growth caused a route in Chinese equities, which had ripple effects on global financial markets. India's growth continued to accelerate benefiting from lower energy prices and outpacing China for all of 2015. The decline in global oil prices has battered the economies of commodity-reliant emerging markets. Russia, Brazil and Venezuela each fell into deep recessions.

The price of West Texas Intermediate (WTI) crude oil opened 2015-16 fiscal year down 50 per cent from mid 2014. Except for a brief recovery in the first quarter of the fiscal year, prices continued to fall and closed 2015-16 down a further 20 per cent at US$37 per barrel. Falling US production was more than offset by rising OPEC production, led by Iraq. More recently, Iranian production has started to ramp-up after international sanctions were lifted, though recent disruptions in Nigeria and Libya demonstrate the uncertainty of oil supply in politically unstable regions.

Global equity markets struggled, with the S&P 500 down 0.2 per cent over the 2015/2016 fiscal year. The energy intensive TSX performed far worse declining 6.6 per cent. With the Canadian economy hobbled by low oil prices, the Bank of Canada followed up its January 2015 rate cut with another cut in July 2015. With the BoC rate cut, bond yields fell further in the fiscal year. Diverging monetary policy compared with the US and falling oil prices caused the Canadian dollar to fall to the lowest level in over a decade in January. However, a modest recovery in oil prices allowed the exchange rate to close out the fiscal year at 77 US ¢/C$, just two cents down from the start of the fiscal year. The five-year Government of Canada bonds closed at 0.68 per cent and the ten-year closed at 1.23 per cent, both were more or less in line with yields in April 2015.

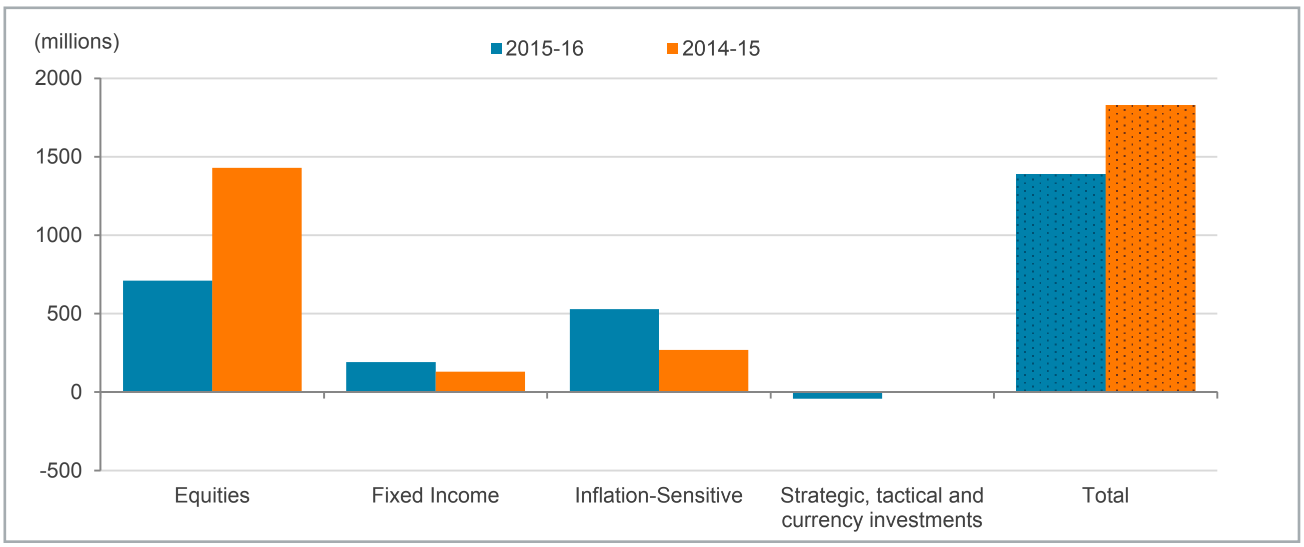
INVESTMENT INCOME

The Heritage Fund earned a gross investment income of $1,388 million for the year ended March 31, 2016. This was a decrease of $437 million from the $1,825 million earned in the previous year. Expenses for the year were $150 million, and the net investment income was $1,238 million. The legislation of the Fund requires that an amount be retained for inflation-proofing. This year the amount was $209 million, based on an increase to Alberta Consumer Price Index of 1.4 per cent. The remainder of $1,029 million was transferred to the province's General Revenue Fund, as required by the Fund's legislation.

The net income for the year was $331 million less than the income of $1,719 million projected in *Budget 2015 (October)*. The difference was primarily due to weaker-than-expected equity markets during the latter half of the fiscal year. The Canadian Dollar rallied in the final quarter of the fiscal year which decreased the value of some of our foreign investments when converted back to Canadian dollars.

Even though equities did not have a great year for the Fund on a fair value basis, the equities assets in the Fund were still the primary contributor to earnings during the year because of gains earned in previous years that were realized this fiscal year. They grossed $710 million or 51 per cent of total income earned by the Heritage Fund. This amount was less than half of the $1,429 million that was earned from equities in the previous year. Fixed income earned $191 million in 2015-16, an increase from the $130 million in the previous year. Inflation-Sensitive and Alternatives Investments earned $529 million in during the fiscal year compared to $269 million in 2014-15. The substantial increase in income is almost totally attributable to the sale of Autopista Central de Chile, which occurred in 2016. The Infrastructure asset class, which is in Inflation-Sensitive and Alternative Investments, returned $260 million in income more than the previous year.

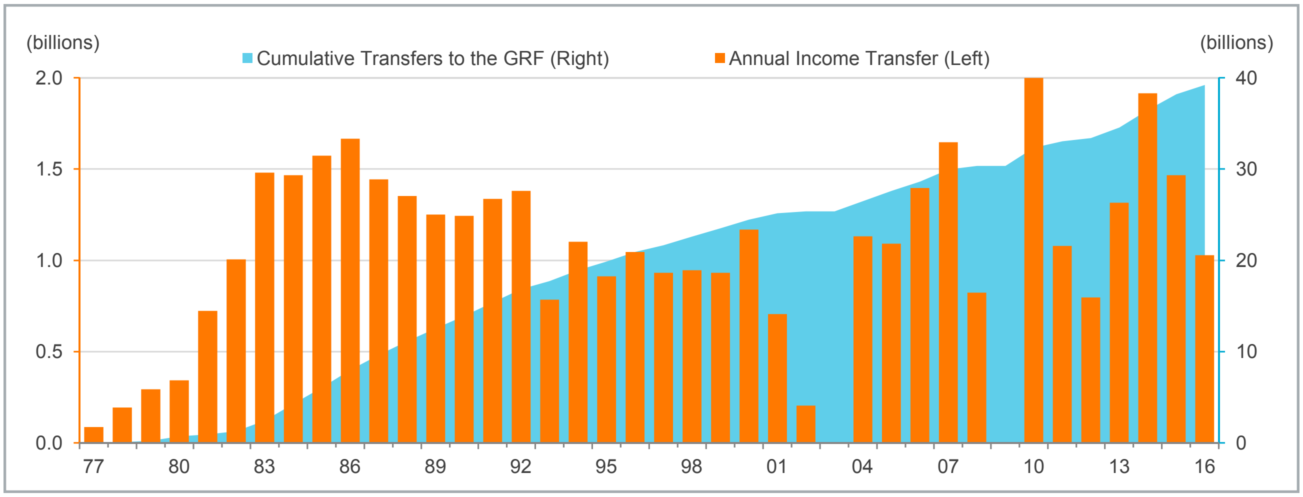
Investment Income by Asset Class



INCOME TRANSFER AND INFLATION-PROOFING

Since the Fund was established in 1976, it has earned $38.4 billion in accumulated net income, of which $3.1 billion has been retained for inflation-proofing. An additional $3.9 billion from the Fund was made available from 1976 to 1995 to pay for capital projects and other endowments in Alberta. In all, the Heritage Fund, since its inception has provided $39.2 billion to the Province to pay for programs and projects.

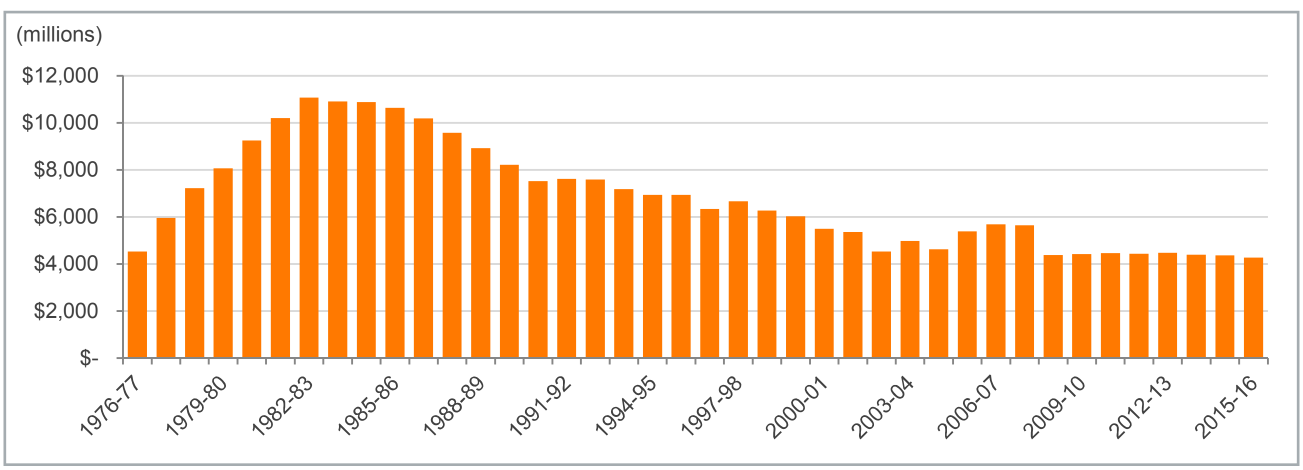
Income and Cumulative Transfer to GRF



Cumulative inflation since the Heritage Fund's inception has caused prices to increase four times from their 1976 level, meaning what cost $1 in 1976 now costs more than $4. The chart below illustrates how inflation has decreased the value of the Fund and underscores the importance of inflation-proofing. The market value per capita, in real dollars, reached its peak in 1983 when the Fund was worth slightly more than $11,074 per capita in 2016 dollars. In 1987, deposits into the Fund were halted. Since 2005 the Fund has been protected against inflation. Since inflation-proofing resumed, combined with investment growth and some ad hoc deposits into the Fund, the per capita value market value has stabilized and the market value per capita value on March 31, 2016 was $4,265.82 per Albertan.

Market Value Inflation Adjusted Per Capita

(2016 dollars)



INVESTMENT EXPENSES

The Heritage Fund investment expenses were $150 million for the year, which was $3 million more than the $147 million spent during the previous year. Fees have stabilized as the Fund's policy asset mix has approached full implementation. Fees can be volatile from year to year as a large portion of performance fees are performance based and will increase in in years when investment managers produce returns exceeding their targets. Investment expenses in 2015–16 were 0.84 per cent of the average fair value of the investments compared to 0.82 per cent during the previous year.

Investment Expenses

(millions)	2016	2015
Total Investment expenses	$150	$147
Average Fair Value of Investments	$17,962	$17,988
Per cent of investments at average fair value	0.84%	0.82%

ASSET MIX

The Heritage Fund continues to increase its exposure to Inflation-Sensitive and Alternative Investments. During the fiscal year the Fund increased its percentage of assets in this class from 29.7 to 33.4. The Fund is above its long-term target of 30 per cent. Fixed Income investments increased from 17.9 per cent of the portfolio to 18.7 per cent and equities decreased to 46.8 per cent from 51.3 per cent of the portfolio.

Strategic Opportunities are investments that do not fit in the traditional asset mix framework; these assets comprised 1.1 per cent of total assets at March 31, 2016. According to the SIP&G these assets may comprise up to 2 per cent of the portfolio.

Asset Mix

	March 2016	March 2015	Policy Range
Fixed Income and Money Market (20%)	**18.7%**	**17.3%**	**15-45%**
Deposits and short-term	0.5%	0.2%	0-25%
Bonds and mortgages	18.2%	17.1%	10-35%
Inflation-Sensitive and Alternative Investments (30%)	**33.4%**	**29.7%**	**15-40%**
Real estate	23.4%	20.1%	10-20%
Infrastructure	7.6%	7.3%	5-15%
Timberland	2.4%	2.3%	0-5%
Equities (50%)	**46.8%**	**51.4%**	**35-70%**
Canadian	8.8%	8.2%	5-15%
Global developed	27.1%	32.3%	20-65%
Emerging markets	3.0%	3.7%	0-10%
Private	7.9%	7.2%	0-10%
Strategic Opportunities	**1.1%**	**1.6%**	**0-5%**
Alberta Growth Mandate*	0.3%	-	3%

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

INVESTMENT PERFORMANCE

The *Alberta Heritage Savings Trust Fund Act* states that the "investments of Heritage Fund assets must be made with the objective of maximizing long-term financial returns." The Fund's long-term target as stated in the SIP&G is CPI plus 4.5 per cent. Over a five-year span, the Fund returned 10.5 per cent on an annualized basis, which is higher than the return on the policy benchmark of 9.2 per cent. Over a 10-year horizon, the Fund has returned 7.0 per cent versus a policy benchmark return of 6.5 per cent. Over the last five years, the CPI plus 4.5 target was 6.0 per cent, which the Fund has handily beaten.

The Heritage Fund net-of-fees return was 4.7 per cent during the 2015-16 fiscal year, while the policy benchmark return was 0.4 per cent. Returns in Inflation-Sensitive and Alternative Investments were offset by lower than expected returns in the equity portfolio. All of the asset classes contributed to the value add by the investment manager, with the Inflation Sensitive and Alternatives asset class contributing the most.

Total Fund Performance

	2015-16	2014-15	5 Year	10 Year
Fund Rate of Return	4.7	12.5	10.5	7.0
Benchmark	0.4	14.7	9.2	6.5
Active Management	4.3	(2.2)	1.3	0.5
Long Term Return Target - CPI + 4.5	5.9	5.5	6.0	6.1
Active Management Target	1.0	1.0	1.0	1.0
Total Target Return	6.9	6.5	7.0	7.1

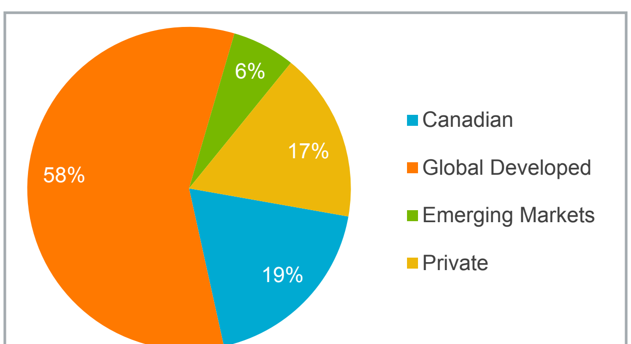
Asset Class Return versus Benchmark

	1 Year Return	1 Year Benchmark	5 Year Return	5 Year Benchmark
Fixed Income	3.0	0.8	6.7	5.2
Inflation Sensitive and Alternative Investments	11.9	2.1	11.5	9.4
Real Estate	9.5	7.6	13.3	10.6
Infrastructure	22.1	(9.6)	8.7	6.9
Timberland	1.5	(9.6)	9.1	6.9
Equities	0.3	(1.3)	11.1	10.5
Canadian	(5.2)	(6.6)	4.0	2.1
Global	(0.8)	(2.3)	12.6	11.7
Private	8.3	6.6	11.1	13.4

EQUITIES

The Fund invests in equities to provide long-term investment growth and income. The Equity portfolio is a combination of Canadian, Global and Private Equities. The Fund had $8.4 billion or 46.8 per cent of its assets in equity investments as at March 31, 2016. This is lower than the previous year's holdings of $9.4 billion or 53.1 per cent. The Equities portfolio returned 0.3 per cent for the year ended March 31, 2016. The equity benchmark had a return of -1.3 per cent. Looking at the five year performance of the Equity portfolio it has returned 11.1 per cent per year, beating the equity benchmark by 0.6 per cent.

Equities



Canadian Equity

The S&P/TSX Composite index returned -6.6 per cent for the year. The Canadian stock market is heavily weighted in three main sectors: Financial, Energy and Materials sectors. These three sectors constitute nearly two-thirds of the index. Canadian markets were hampered by poor returns in the Energy sector that returned a negative 18.3 per cent, as the supply glut of crude oil continued. Other sectors, such as Consumer Staples and Telecom performed well, but their weighting in the market was not enough to overcome the drag cause by Energy. Health Care also suffered with the 86 per cent drop in Valeant Pharmaceuticals, which was once one of the largest companies in the index. The Heritage Fund had $1.6 billion invested in Canadian Equity, which was up slightly from the previous year. The Fund's Canadian equities portfolio assets returned -5.2 per cent for the year, beating its benchmark by 1.4 per cent. Over the past five years the Canadian Equity Portfolio has returned 4.0 per cent per year, while its benchmark has returned 2.1 per cent.

Global Equities

The Fund's Global Equity portfolio returned negative 0.8 per cent for the fiscal year, compared to benchmark return, which was -2.3 per cent. At year end, global equities totalled $5.4 billion, down from $6.6 billion in the previous year. Weak global economic growth was the reason for the lacklustre returns for the year.

The long-term performance of the Global Equity portfolio has been very good. During the last five years the Global Equity portfolio has returned 12.6 per cent per annum. Over the same time period the benchmark has returned 11.7 per cent per annum.

Approximately half of the global equity holdings are invested in the U.S. and half in Europe, Australasia, and the Far East. A portion of Global Equities is invested in structured equity products using index swaps and futures contracts that replicate exposure to global equity markets. Emerging market public equities make up 9.8 per cent of the global equity portfolio and 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 64 per cent of the emerging markets.

Top 10 Canadian Equity Holdings

Ending March 31, 2016

Holding	(%)	$ in Millions
Toronto Dominion Bank	5.7%	$89.7
Bank of Nova Scotia	4.4%	$69.8
Royal Bank of Canada	4.3%	$67.4
Canadian National Railway Co.	4.1%	$64.8
Suncor Energy Inc.	3.3%	$52.0
Bank of Montreal	3.2%	$49.8
Sun Life Financial Inc.	2.8%	$43.4
Transcanada Corp.	2.7%	$43.3
Canadian Natural Resources Ltd.	2.6%	$41.2
Alimentation Couche-Tard	2.5%	$39.9
Total - Top 10 Holdings	35.9%	$561.3

Top 10 Global Equity Holdings

Ending March 31, 2016

Name	Weight (%)	$ in Millions
Apple Inc.	2.0%	$61.5
Microsoft Corp.	1.9%	$59.2
Danske Bank	1.6%	$49.1
TMX Group Ltd.	1.5%	$47.2
Johnson & Johnson	1.3%	$39.5
Facebook Inc.	1.1%	$34.2
Berkshire Hathaway Inc.	1.1%	$33.6
JP Morgan Chase & Co.	1.1%	$32.2
Verizon Communications Inc.	1.0%	$31.3
Visa Inc.	0.9%	$28.4
Total - Top 10 Holdings	12.6%	$416.2

Private Equity

Private equity investment was $1.4 billion at year end, up from $1.3 billion at the end of the previous year. The Private Equity portfolio is made up of a variety of domestic and foreign investments that primarily include buyout investments such as expansion capital, acquisition financings, management buyouts, family succession, turnaround financings, project financings and leverage reductions. The Private Equity portfolio had a 8.3 per cent return for the fiscal year. The benchmark for Private Equity investment changed on January 1, 2016 to CPI + 6.50. The benchmark for the fiscal year returned 6.6 per cent.

The Private Equity portfolio over the past five years has returned a very good annualized return of 11.1 per cent. Even with the strong returns experienced by the portfolio it still trailed the benchmark for Private Equity, which annually returned 13.4 per cent.

Private Equity Program Top 10 Holdings

As at March 31, 2016

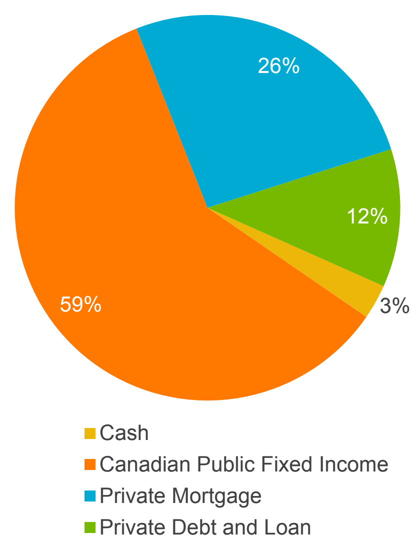
Name	Sector
Vue Entertainment	Consumer Discretionary
ERM	Business Services
Ladder Capital	Financials
Milacron	Industrials
Lion Capital 3	Fund
CCMP III	Fund
Alegeus Technologies	Health Care
New Mountain Partners IV LP	Fund
Sterling IV	Fund
Advent International GPE VI	Fund
Total - Top 10 Holdings	$626.0

FIXED INCOME

The fixed income investments in the Fund provide a safe and steady source of income for current funding priorities. Fixed income investments tend to offer lower risk and lower volatility than other investments and stabilize the portfolio returns. As at March 31, 2016, the Fund had $3.4 billion or 18.7 per cent invested in the Fixed Income portfolio, which was $200 million more than the previous year. The fixed income in the portfolio is primarily held in federal, provincial, municipal and corporate bonds. The Fund also has investments in private mortgages and private debt. During the year, overall Fixed Income portfolio earned 3.0 per cent, 2.2 per cent more than the benchmark of 0.8 per cent. The portfolio had cash or money market position of $104 million at the end of the year, up from $49 million the previous year.

The Fixed Income portfolio has returned 6.7 per cent per year for the last five years. Over the same time period the benchmark for the Fixed Income portfolio, the FTSE/TMX Universe Bond Index has returned 5.2 per cent per year.

Fixed Income



Bonds

The public fixed income portfolio comprises high quality government, corporate bonds and cash investments. The main bond portfolio, which is measured against the FTSE/TMX Universe Bond Index, was valued at $2.0 billion at year end, up from $1.9 billion at the end of the previous year. The bond portfolio returned 2.5 per cent for the year, beating the benchmark return of 0.8 per cent. The portfolio has an overweight position in high quality short-term corporate credit that performed well during the year. The Heritage Fund's Bond portfolio has returned an annualized 6.7 per cent over the last five years, beating the annualized benchmark return of 5.2 per cent.

Private Mortgages

The Private Mortgage investments are diversified geographically and by property type. The Fund's Private Mortgage investments are meant to augment the fixed income portfolio by offering a diversified source of yield enhancement. The Fund had investments of $872 million at year end, a decrease of $34 million from the previous year's value. The private mortgage investments returned 3.2 per cent, which was the same as the benchmark return. Over the past five years the annualized return for the Private Mortgage portfolio was 6.5 per cent beating the benchmark return of 5.2 per cent.

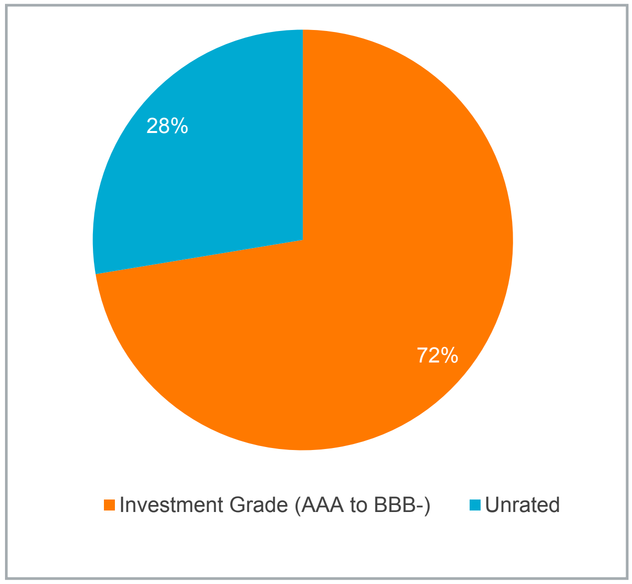
Private Debt and Loan

The Heritage Fund held $386 million of the Private Debt and Loan assets as at March 31, 2016. The return for private debt and loan for the year was 6.1 per cent. Private Debt and Loan consists of specialty loans and financing for corporations that don't meet the requirements of traditional financing structures. The Private Debt and Loan portfolio has only existed for two years, but he annualized return for those two years is 6.5 per cent, which beats the annualized benchmark return of 5.4 per cent.

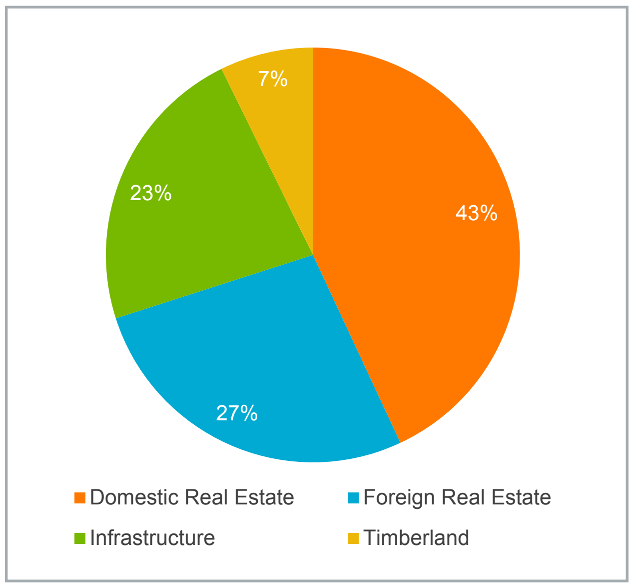
INFLATION-SENSITIVE AND ALTERNATIVE INVESTMENTS

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

Ratings



Inflation-Sensitive



As of March 31, 2016, the inflation-sensitive investments made up 33.4 per cent of the total investments, up from 29.7 per cent in the previous year. The long-term policy target weight of these assets is 30 per cent.

Total inflation-sensitive investments are $6.0 billion, an increase of $600 million over the previous year. The increase includes some gains in the value of investments made in previous years and additional investments made during 2015-16. The overall combined return for Inflation-Sensitive and Alternative Investments was 11.9 per cent, 9.8 percentage points greater than the benchmark's return of 2.1 per cent. The Inflation-Sensitive and Alternatives portfolio has returned 11.5 per cent per year over the last five years, while the benchmark for the asset class had a return of 9.4 per cent per year.

Real Estate

At year end, the Heritage Fund's investment in real estate was $4.2 billion, up from $3.7 billion at the end of the previous year. Real estate holdings were predominantly Canadian with $2.6 billion invested, which is 61 per cent of the real estate portfolio. The portfolio's foreign real estate has $1.6 billion invested, up from $1.1 billion at the end of the previous year, mostly due to increased capital allocated to foreign real estate. Real estate has been a solid performer for the Fund over the past few years and that trend continued with real estate returning 9.5 per cent for the year. The return outpaced its benchmark, which returned 7.6 per cent. Over the past five years the Real Estate portfolio has returned a very strong annualized 13.3 per cent, out-pacing the benchmark return of 10.6 per cent.

Top 10 Domestic Real Estate

Ending March 31, 2016

Property	Sector	City
Yorkdale Shopping Centre	Retail	Toronto
Square One Shopping Centre	Retail	Mississauga
Scarborough Town Centre	Retail	Toronto
Eighth Avenue Place	Office	Calgary
TD Square	Office	Calgary
Bow Valley Square	Office	Calgary
TD Canada Trust Tower	Office	Calgary
Sunlife Financial Centre	Office	Ottawa
5th Avenue Place	Office	Calgary
Morgan Crossing	Retail	Vancouver
Total - Top 10 Holdings	**1,517.5**	

Top 10 Foreign Real Estate

Ending March 31, 2016

Property	Sector	Region
Meyer Homes UK	Residential	London
M25 Causeway Parks	Office	London
EVOQ Los Angeles	Office	USA
Leadenhall Triangle	Office	London
Brookfield Real Estate Finance Fund I - A	Foreign Fund	USA
Whitewood TV City	Residential	London
620 Avenue of the Americas	Office	New York
Meyer Bergman European Real Estate Fund II	Foreign Fund	Europe
Charterhouse (SREL) / Caxton House-Snowhill Lands (BPP)	Office	London
BORO - Meridian Co-Invest	Office	Virginia
Total - Top 10 Holdings	**649.3**	

Timberlands

Investments in Canadian and foreign Timberland totalled $437 million, up $20 million from the previous year. One-third of the timberland portfolio is in Canada, and the remaining two-thirds of the timberland investments are primarily in Australia. The Timberland portfolio returned 1.5 per cent versus its benchmark return of -9.6 per cent. Over the last five years the Timberland portfolio has returned an annualized 9.1 per cent, which beat its benchmark's return of 6.9 per cent per annum.

Timberlands Program Holdings

Ending March 31, 2016

Holding	Geography
Forestry Investment Trust	Australia
Island Timberlands LP	Vancouver Island, BC, Canada
New Forests Australia New Zealand Forest Fund	Australia and New Zealand
Global Timber Investors 8 Timberfund	Australia, New Zealand, and Latin America

Infrastructure

Infrastructure investments provide attractive returns plus inflation sensitivity with a long investment horizon. The Fund's infrastructure investments totaled $1.4 billion at year end and were up from the previous year. Infrastructure projects include transportation/logistics (e.g., toll roads, airports, ports, and rail); power/energy (e.g., contracted power generation, power transmission and pipelines); and utilities (e.g., water, waste water, natural gas networks). Infrastructure returned 22.1 per cent compared to its benchmark return of -9.6 per cent. In the 2015-16 fiscal year, AIMCo divested one of the main infrastructure assets, Autopista Central de Chile, for a substantial gain in January 2016. This was the primary driver for the performance for this year. Over the past five years the Infrastructure assets have returned 8.7 per cent per annum, while the benchmark has returned 6.9 per cent per annum.

Private Infrastructure Program Top 10 Holdings

As at March 31, 2016

Company	Sector	Geography
London City Airport	Transportation	United Kingdom
Porterbrook	Transportation	United Kingdom
SAESA Group	Integrated Utilities	Chile
Puget Energy Inc.	Integrated Utilities	United States
Frequency Infrastructure Group	Telecommunications	Australia / UK
Thames Water	Water	United Kingdom
TransAlta Renewables	Renewable Energy	Canada
Compania Logistica de Hidrocarburos	Pipelines & Midstream	Europe
Linden Cogen Holdings LLC	Power Generation	United States
DESRI FINANCING 3, L.L.C.	Renewable Energy	United States
Total Top 10 Holdings (millions)	**$1,085.9**	

CURRENCY EXPOSURE

The Fund invests in a globally diversified portfolio, but most of the assets remain denominated in Canadian dollars. The Fund policy is based on a study produced by the Department and State Street Associates that recommends the Fund seek foreign denominated assets, particularly U.S. dollar assets. The study showed that the Canadian dollar is highly correlated to oil, gas and bitumen prices. As seen in the decline of oil prices, the Fund's foreign assets should benefit from the associated decline in the Canadian dollar, which they did in the previous year. Therefore, income from the Fund should increase and help partially offset declines in commodity driven provincial revenue. The majority of the Fund's assets are denominated in Canadian dollars, which amounts to 69.3 per cent of the Fund at March 31, 2016. This is up from the previous year, when the Fund had 57.8 per cent invested in Canadian dollar denominated assets. The remainder of the assets are allocated globally in 37 other currencies, the main ones being the U.S. dollar, Euro, Japanese yen, and British pound. The Fund's largest foreign currency exposure is $2.8 billion invested in the U.S. dollar assets.

ALBERTA EXPOSURE

The Alberta Heritage Savings Trust Fund did not have a clear mandate to invest directly into the Alberta market until Budget 2015. Still, prior to this mandate AIMCo, during normal operations on behalf of the Fund, has invested in companies and assets headquartered or located in Alberta.

The Fund has $1.8 billion invested in Alberta, the largest portion of which is in real estate, which has just under $1 billion invested in various properties located in Alberta. This is followed by $438.5 million invested in publicly traded companies headquartered in the province. The amounts do not include businesses that are headquartered elsewhere, but have significant economic exposure to the Alberta economy.

Currency Exposure

As at March 31, 2016

	2016	2015
Canadian Dollar	69.7%	57.8%
US Dollar	15.7%	22.6%
Euro	3.5%	4.5%
Japanese Yen	2.3%	2.6%
British Pound	1.9%	2.8%
Other	7.0%	9.6%
Total	**100.0%**	**100.0%**

Alberta Exposure

As at March 31, 2016

Asset Class	Market Value (Millions)
Real Estate	$921.9
Equity	$438.5
Fixed Income	$204.7
Mortgages	$110.1
Private Equity	$72.8
Total	**$1,747.8**

Top 10 Alberta Public Equity Holdings

As at March 31, 2016

Top 10 Alberta Public Equity Holdings	Market Value (Millions)
Suncor Energy Inc	$55.8
TransCanada Corp	$50.0
TransAlta Renewables Inc	$47.9
Canadian Natural Resources Ltd	$43.9
Enbridge Inc	$37.5
Keyera Corp	$21.9
Inter Pipeline Ltd	$17.9
Canadian Pacific Railway Ltd	$15.2
Agrium Inc	$12.1
Atco Ltd/Canada	$9.9
Total	**$312.2**

HISTORICAL SUMMARY OF OPERATIONS

May 19, 1976 to March 31, 2016

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

Fiscal Year	Net Income (Loss)[a]	TRANSFERS TO THE FUND			TRANSFERS FROM THE FUND			Fund Equity (at cost)
		Resource Revenue Allocation	Deposits	Advanced Education Endowment[b]	Investment Income Transfers[c]	Capital Project Expenditures	Other Transfers	
1976-77	88	2,120	-	-	-	(36)	-	2,172
1977-78	194	931	-	-	-	(87)	-	3,210
1978-79	294	1,059	-	-	-	(132)	-	4,431
1979-80	343	1,332	-	-	-	(478)	-	5,628
1980-81	724	1,445	-	-	-	(227)	-	7,570
1981-82	1,007	1,434	-	-	-	(349)	-	9,662
1982-83	1,482	1,370	-	-	(867)	(296)	-	11,351
1983-84	1,467	720	-	-	(1,469)	(330)	-	11,739
1984-85	1,575	736	-	-	(1,575)	(228)	-	12,247
1985-86	1,667	685	-	-	(1,667)	(240)	-	12,692
1986-87	1,445	217	-	-	(1,445)	(227)	-	12,682
1987-88	1,353	-	-	-	(1,353)	(129)	-	12,553
1988-89	1,252	-	-	-	(1,252)	(155)	-	12,398
1989-90	1,244	-	-	-	(1,244)	(134)	-	12,264
1990-91	1,337	-	-	-	(1,337)	(150)	-	12,114
1991-92	1,382	-	-	-	(1,382)	(84)	-	12,030
1992-93	785	-	-	-	(785)	(84)	-	11,946
1993-94e	1,103	-	-	-	(1,103)	(71)	-	11,875
1994-95	914	-	-	-	(914)	(49)	-	11,826
1995-96	1,046	-	-	-	(1,046)	-	-	11,826
1996-97	932	-	-	-	(756)d	-	-	12,002
1997-98	947	-	-	-	(922)d	-	-	12,027
1998-99	932	-	-	-	(932)	-	-	12,027
1999-00	1,169	-	-	-	(939)d	-	-	12,257
2000-01	706	-	-	-	(706)	-	-	12,257
2001-02	206	-	-	-	(206)	-	-	12,257
2002-03	(894)	-	-	-	-	-	-	11,363
2003-04	1,133	-	-	-	(1,133)	-	-	11,363
2004-05	1,092	-	-	-	(1,092)	-	-	11,363
2005-06	1,397	-	1,000	750	(1015)d	-	-	13,495
2006-07	1,648	-	1,000	250	(1365)d	-	-	15,028
2007-08	824	-	918	-	(358)d	-	-	16,412
2008-09	(2,574)	-	-	-	-	-	-	13,838
2009-10	2,006	-	-	-	(2,006)	-	-	13,838
2010-11	1,080	-	-	-	(720)d	-	-	14,198
2011-12	798	-	-	-	(344)d	-	-	14,652
2012-13	1,316	-	-	-	(1155)d	-	-	14,813
2013-14	2,109	-	-	-	(1916)d	-	-	15,006
2014-15	1,678	-	-	-	(1468)d	-	(255)	14,961
2015-16	1,238				(1029)d	-	-	15,170
TOTAL	38,445	12,049	2,918	1,000	(35,501)	(3,486)	(255)	15,170

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

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

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

d At March 31, 2016 the accumulated amount retained in the Fund for inflation-proofing was $3.149 million (2015: $2.940 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.

ALBERTA HERITAGE SAVINGS TRUST FUND

FINANCIAL STATEMENTS MARCH 31, 2016

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Independent Auditor's Report

To the President of Treasury Board and Minister of Finance

Report on the Financial Statements

I have audited the accompanying financial statements of the Alberta Heritage Savings Trust Fund, which comprise the statement of financial position as at March 31, 2016, and the statements of operations and accumulated surplus, remeasurement gains and losses, change in net financial assets, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Alberta Heritage Savings Trust Fund as at March 31, 2016, and the results of its operations, its remeasurement gains and losses, its changes in net financial assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

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

Auditor General

June 8, 2016

Edmonton, Alberta

Statement of Financial Position

As at March 31, 2016
(in millions)

	2016	2015
Financial assets		
Investments (Note 3)	$ 17,975	$ 18,319
Liabilities		
Due to the General Revenue Fund	229	371
Net Financial Assets	$ 17,746	$ 17,948
Net financial assets (Note 5)		
Accumulated operating surplus	$ 15,170	$ 14,961
Accumulated remeasurement gains	2,576	2,987
	$ 17,746	$ 17,948

Statement of Change in Net Financial Assets

Year Ended March 31, 2016
(in millions)

	2016 Budget	2016 Actual	2015 Actual
Net operating surplus (deficiency)	$ 165	$ 209	$ (45)
Net remeasurement (losses) gains		(411)	473
(Decrease) increase in net financial assets		**(202)**	**428**
Net financial assets, beginning of year		17,948	17,520
Net financial assets, end of year		$ 17,746	$ 17,948

The accompanying notes are part of these financial statements.

Statement of Operations and Accumulated Surplus

Year Ended March 31, 2016

(in millions)

	2016 Budget	2016 Actual	2015 Actual
Investment income (Note 7)	$ 1,719	$ 1,388	$ 1,825
Investment expenses (Note 8)	(123)	(150)	(147)
Net income from operations	1,596	1,238	1,678
Transfers to the General Revenue Fund (Note 5b)	(1,431)	(1,029)	(1,468)
Net surplus retained in the Fund (Note 5b)	165	209	210
Transfers to the Alberta Heritage Scholarship Fund (Note 5d)	-	-	(200)
Transfers for Agriculture and Food Innovation (Note 5d)	-	-	(3)
Transfers to the Access to the Future Fund (Note 6)	-	-	(52)
Net operating surplus (deficiency)	**$ 165**	**209**	**(45)**
Accumulated operating surplus, beginning of year		14,961	15,006
Accumulated operating surplus, end of year		$ 15,170	$ 14,961

Statement of Remeasurement Gains and Losses

Year Ended March 31, 2016

(in millions)

	2016	2015
Unrealized (loss) gain on investments	$ (223)	$ 789
Less: Amounts reclassified to the Statement of Operations - realized gains on investments	(188)	(316)
Net remeasurement (losses) gains	**(411)**	**473**
Accumulated remeasurement gains, beginning of year	2,987	2,514
Accumulated remeasurement gains, end of year	$ 2,576	$ 2,987

The accompanying notes are part of these financial statements.

Statement of Cash Flows

Year Ended March 31, 2016
(in millions)

	2016	2015
Operating transactions		
Net income from operations	$ 1,238	$ 1,678
Non-cash items included in net income	(188)	(316)
	1,050	1,362
Decrease in accounts receivable	-	11
Cash provided by operating transactions	1,050	1,373
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	4,251	3,397
Purchase of investments	(4,082)	(3,265)
Cash provided by investing transactions	169	132
Transfers		
Transfers to the General Revenue Fund	(1,029)	(1,468)
Transfers to the Alberta Heritage Scholarship Fund	-	(200)
Transfers for Agriculture and Food Innovation	-	(3)
Transfers to the Access to the Future Fund	-	(52)
(Decrease) increase in amounts due to the General Revenue Fund	(142)	224
Cash used in transfers	(1,171)	(1,499)
Increase in cash	48	6
Cash at beginning of year	49	43
Cash at end of year	$ 97	$ 49
Consisting of Deposits in the Consolidated Cash Investment Trust Fund (CCITF) *	$ 97	$ 49

* The CCITF is a highly-liquid, short-term money market pooled fund consisting primarily (93%) of securities with maturities of less than one year.

Notes to the Financial Statements

March 31, 2016
(in millions)

NOTE 1 AUTHORITY AND MISSION

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

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

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

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

a) VALUATION OF INVESTMENTS

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

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

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

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

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

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

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

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

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

b) INVESTMENT INCOME

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

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

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

c) INVESTMENT EXPENSES

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

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

d) REMEASUREMENT GAINS AND LOSSES

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

e) MEASUREMENT UNCERTAINTY

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

f) TRANSFERS TO THE GENERAL REVENUE FUND (GRF)

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

NOTE 3 INVESTMENTS (in millions)

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

	Fair Value Hierarchy (a)				
Asset class	Level 1	Level 2	Level 3	**2016**	**2015**
Interest-bearing securities					
Deposits in CCITF	$ -	$ 97	$ -	$ 97	$ 49
Bonds, mortgages and private debt	-	1,997	1,259	3,256	3,221
	-	2,094	1,259	3,353	3,270
Equities					
Canadian	1,239	340	-	1,579	1,499
Global developed	2,020	785	2,074	4,879	5,910
Emerging markets	516	14	-	530	689
Private	-	-	1,426	1,426	1,311
	3,775	1,139	3,500	8,414	9,409
Inflation sensitive					
Real estate	-	-	4,205	4,205	3,682
Infrastructure	-	-	1,360	1,360	1,347
Timberland	-	-	437	437	417
	-	-	6,002	6,002	5,446
Strategic, tactical and currency investments *	-	40	166	206	194
Total Fair Value of Investments	$ 3,775	$ 3,273	$ 10,927	$ 17,975	$ 18,319

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

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

- ***Level 1*** - fair value is based on quoted prices in an active market. This level includes publicly traded listed equity investments totalling $3,775 (2015: $5,201).
- ***Level 2*** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes debt securities and derivative contracts not traded on a public exchange totalling $3,273 (2015: $2,938). For these investments, fair value is either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.
- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes private mortgages, hedge funds, private equities and all inflation sensitive investments totalling $10,927 (2015: $10,180).

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

Reconciliation of Level 3 Investments

	2016	2015
Balance, beginning of year	$ 10,180	$ 9,056
Unrealized gains	395	622
Purchases of Level 3 pooled fund units	2,156	1,556
Sale of Level 3 pooled fund units	(1,804)	(1,054)
Balance, end of year	$ 10,927	$ 10,180

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

- ***Interest-bearing securities***: Public interest-bearing securities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. Private mortgages are valued based on the net present value of future cash flows discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market. Private debt and loans is valued similar to private mortgages.
- ***Equities:*** Public equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. The fair value of hedge fund investments is estimated by external managers. The fair value of private equities is estimated by managers or general partners of private equity funds, pools and limited partnerships. Valuation methods for private equities may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and earnings multiple analysis**.**
- ***Inflation sensitive investments:*** The estimated fair value of private real estate investments is reported at the most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value

including replacement cost, direct comparison, direct capitalization of earnings and discounted cash flows. The fair value of timberland investments is appraised annually by independent third party evaluators. Infrastructure investments are valued similar to private equity investments.

- ***Strategic, tactical and currency investments:*** The estimated fair value of infrastructure investments held in emerging market countries is estimated by managers or general partners of private equity funds and joint ventures. For tactical asset allocations, investments in derivative contracts provides overweight or underweight exposure to global equity and bond markets, including emerging markets. Currency investments consist of directly held currency forward and spot contracts.
- ***Foreign currency:*** Foreign currency transactions in pools are translated into Canadian dollars using average rates of exchange. At year-end, the fair value of investments in other assets and liabilities denominated in a foreign currency are translated at the period end exchange rates.
- ***Derivative contracts:*** The carrying value of derivative contracts in a favourable and unfavourable position is recorded at fair value and is included in the fair value of the pools (see Note 4f). The estimated fair value of equity and bond index swaps is based on changes in the appropriate market-based index net of accrued floating rate interest. Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates. Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities. Forward foreign exchange contracts and futures contracts are valued based on quoted market prices. Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swap. Warrants and rights are valued at the period-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

NOTE 4 INVESTMENT RISK MANAGEMENT (in millions)

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

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

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

Asset Class	Target Asset Policy Mix	Actual Asset Mix 2016		Actual Asset Mix 2015	
Interest-bearing securities	15 - 45%	$ 3,353	18.7%	$ 3,270	17.9%
Equities	35 - 70%	8,414	46.8%	9,409	51.3%
Inflation sensitive	15 - 40%	6,002	33.4%	5,446	29.7%
Strategic, tactical and currency investments	(a)	206	1.1%	194	1.1%
		$ 17,975	100.0%	$ 18,319	100.0%

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

a) Credit Risk

i) Debt securities

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

The table below summarizes debt securities by counterparty credit rating at March 31, 2016:

Credit rating	2016	2015
Investment Grade (AAA to BBB-)	72.4%	70.9%
Speculative Grade (BB+ or lower)	0.0%	0.4%
Unrated	27.6%	28.7%
	100.0%	100.0%

ii) Counterparty default risk - derivative contracts

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

NOTE 4 INVESTMENT RISK MANAGEMENT (in millions) CONTINUED

iii) Security lending risk

To generate additional income, the pools participate in a securities-lending program. Under this program, the custodian may lend investments held in the pools to eligible third parties for short periods. At March 31, 2016, the Fund's share of securities loaned under this program is $404 million (2015: $332 million) and collateral held totals $428 million (2015: $348 million). Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) Foreign currency risk

The Fund is exposed to foreign currency risk associated with the underlying securities held in the pools that are denominated in currencies other than the Canadian dollar. Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fair value of investments denominated in foreign currencies is translated into Canadian dollars using the reporting date exchange rate. As a result, fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect on the fair value of investments. Approximately 30% (2015: 41%) of the Fund's investments, or $5,453 million (2015: $7,577 million), are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar, 16% (2015: 22%) and the Euro, 3% (2015: 4%).

If the value of the Canadian dollar increased by 10% against all other currencies, and all other variables are held constant, the potential loss in fair value to the Fund would be approximately 3.0% of total investments (2015: 4.1%).

The following table summarizes the Fund's exposure to foreign currency investments held in the pools at March 31, 2016:

	2016		2015	
Currency	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 2,828	$ (283)	$ 4,066	$ (407)
Euro	621	(62)	813	(81)
Japanese yen	410	(41)	469	(47)
British pound sterling	335	(33)	512	(51)
Other foreign currencies (below 1%)	1,259	(126)	1,717	(172)
Total foreign currency investments	$ 5,453	$ (545)	$ 7,577	$ (758)

c) Interest rate risk

The Fund is exposed to interest rate risk associated with the underlying interest-bearing securities held in the pools managed by AIMCo. Interest rate risk relates to the possibility that the fair value of investments will change due to future fluctuations in market interest rates. In general, investment returns from bonds and mortgages are sensitive to changes in the level of interest rates, with longer term interest bearing securities being more sensitive to interest rate changes than shorter-term bonds. If interest rates increased by 1%, and all other variables are held constant, the potential loss in fair value to the Fund would be approximately 1.0% of total investments (2015: 1.1%).

d) Price risk

Price risk relates to the possibility that pool units will change in fair value due to future fluctuations in market prices of equities held in the pools caused by factors specific to an individual equity investment or other factors affecting all equities traded in the market. The Fund is exposed to price risk associated with the underlying equity investments held in the pools managed by AIMCo. If equity market indices (S&P/TSX, S&P500, S&P1500 and MSCI ACWI and their sectors) declined by 10%, and all other variables are held constant, the potential loss in fair value to the Fund would be approximately 6.0% of total investments (2015: 6.3%). Changes in fair value of investments are recognized in the statement of remeasurement gains and losses.

e) Liquidity risk

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

f) Use of Derivative Financial Instruments in Pooled Investment Funds

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

		Fund's Indirect Share	
By counterparty	Number of counterparties	**2016**	**2015**
Contracts in favourable position (current credit exposure)	41	$ 370	$ 56
Contracts in unfavourable position	10	(62)	(161)
Net fair value of derivative contracts	51	$ 308	$ (105)

i) Current credit exposure: The current credit exposure is limited to the amount of loss that would occur if all counterparties to contracts in a favourable position totaling $370 million (2015: $56 million) were to default at once.

ii) Cash settlements: Receivables or payables with counterparties are usually settled in cash every three months.

iii) Contract notional amounts: The fair value of receivables (receive leg) and payables (pay leg) and the exchange of cash flows with counterparties in pooled funds are based on a rate or price applied to a notional amount specified in the derivative contract. The notional amount itself is not invested, received or exchanged with the counterparty and is not indicative of the credit risk associated with the contract. Notional amounts are not assets or liabilities and do not change the asset mix reported in Note 3. Accordingly, there is no accounting policy for their recognition in the statement of financial position.

Types of derivatives used in pools	Fund's Indirect Share 2016	2015
Structured equity replication derivatives	$ 100	$ 8
Foreign currency derivatives	214	(101)
Interest rate derivatives	(8)	(17)
Credit risk derivatives	2	5
Net fair value of derivative contracts	$ 308	$ (105)

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

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

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

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

v) Deposits: At March 31, 2016 deposits in futures contracts margin accounts totalled $48 million (2015: $51 million) and deposits as collateral for derivative contracts totalled $7 million (2015: $78 million).

NOTE 5 NET FINANCIAL ASSETS (in millions)

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

	Cumulative since 1976 2016	2015
Accumulated net income	$ 38,445	$ 37,207
Transfers to the Fund		
Resource Revenue (1976-1987)	12,049	12,049
Access to the Future [(a)]	1,000	1,000
Voted Payments	2,918	2,918
	15,967	15,967
Transfers (from) the Fund		
Section 8 transfers [(b)]		
Income	(38,650)	(37,412)
Amount Retained in the Fund	3,149	2,940
	(35,501)	(34,472)
Capital Expenditures (1976-1995) [(c)]	(3,486)	(3,486)
Transfers to Alberta Heritage Scholarship Fund [(d)]	(200)	(200)
Transfers for Agriculture and Food Innovation [(d)]	(3)	(3)
Transfers to the Access to the Future Fund	(52)	(52)
	(39,242)	(38,213)
Accumulated surplus from operations	15,170	14,961
Accumulated remeasurement gains	2,576	2,987
Carrying value of net financial assets	$ 17,746	$ 17,948

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

[b] During the year, the Fund earned net income of $1,238 million, of which $209 million was retained in the Fund and $1,029 million is payable to the GRF. Section 8 of the Act states that the net income of the Heritage Fund, less any amount retained in the Fund, in accordance with section 11 of the Act, shall be transferred to the GRF in a manner determined by the Minister of Treasury Board and Finance. Effective 2015-16, the amount to be retained in the Fund for inflation proofing is determined by multiplying the accumulated operating surplus of the Fund from the prior fiscal year end by the estimated percentage increase in the Alberta Consumer Price Index (Alberta CPI) for the year. Prior to 2015-16, any amount retained in the Fund was based on the Canadian gross domestic product implicit price index (GDP Deflator Index). In accordance with section 11(3), if the Alberta CPI is a negative number, that negative number shall be treated as if it were zero.

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

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

NOTE 6 INVESTING IN ADVANCED EDUCATION (in millions)

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

	2016	2015
Balance, beginning of year	$ 1,260	$ 1,166
Rate of return adjustment	59	146
Transfers to Access to the Future Fund	-	(52)
Balance, end of year	$ 1,319	$ 1,260

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

ii) A maximum of $3 billion can be allocated to the account from within the Fund of which $750 million has been allocated in 2005-06 and $250 million in 2006-07. The balance includes accumulated inflation proofing to March 31, 2014 totalling $166 million. The requirement to inflation proof the account in the *Access to the Future Act* was repealed on April 1, 2014. Starting April 1, 2014, the balance in the account is adjusted for (a) the rate of return reported by the Fund for the period and (b) transfers to the Access to the Future Fund.

iii) Maximum transfers to the Access to the Future Fund are calculated as 4.5% of the average of the closing balances of the Account for the preceding 3 fiscal years. Effective in fiscal year 2015-16, transfers to the Access to the Future Fund are made from the General Revenue Fund (Sec 4(7) of the *Access to the Future Act*). In 2015-16, no transfers were made to the Access to the Future Fund. In 2014-15, transfers to the Access to the Future Fund came directly from the Heritage Fund.

NOTE 7 INVESTMENT INCOME (in millions)

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

	2016	2015
Interest-bearing securities	$ 191	$ 130
Equities		
Canadian	(12)	130
Global	596	1,182
Private	126	117
	710	1,429
Inflation sensitive		
Real estate	222	221
Infrastructure	313	53
Timberland	(6)	(5)
	529	269
Strategic, tactical and currency investments	(42)	(3)
	$ 1,388	$ 1,825

The investment income includes realized gains and losses from disposal of pool units totalling $292 million (2015: $389 million) and realized losses from directly held foreign exchange contracts totalling $104 million (2015: $73 million). Income distributions from the pools total $1,200 million (2015: $1,509 million).

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

NOTE 8 INVESTMENT EXPENSES (in millions)

	2016	2015
Amount charged by AIMCo for:		
Investment costs [(a)]	$ 118	$ 111
Performance based fees [(a)]	32	36
Total investment expenses	$ 150	$ 147
Increase (decrease) in expenses	2.0%	-9.8%
Increase in average investments under management	0.9%	3.3%
Increase (decrease) in value of investments attributed to AIMCo	4.3%	-2.0%
Investment expense as a percent of:		
Dollar earned	10.8%	8.1%
Dollar invested	0.8%	0.8%

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

Includes $118 thousand (2015: $127 thousand) charged to the Fund by Alberta Treasury Board and Finance for investment accounting and reporting services, and $nil (2015: $116 thousand) paid to the International Forum of Sovereign Wealth Funds for membership.

NOTE 9 INVESTMENT PERFORMANCE (net of investment expenses)

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

			Average Annualized Return	
Time-weighted rates of return, at fair value [(a)]	**2016**	**2015**	**5 years** [(d)]	**10 years**
Net return on investments [(b)]	4.7%	12.5%	10.5%	7.0%
Policy benchmark return [(b)]	0.4%	14.5%	9.2%	6.5%
Value (lost) added by AIMCo [(c)]	4.3%	-2.0%	1.3%	0.5%

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

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

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

(d) In accordance with the SIP&G, over a five-year period, it is expected that the policy portfolio will earn an average return of 4.5%, adjusted for inflation and value added by investment manager of 1.0%. The five-year annualized CPI is 1.5%, bringing the five-year annualized Portfolio Return Expectation to 7.0%.

NOTE 10 FINANCIAL STATEMENTS

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