



# Alberta Heritage Savings Trust Fund

2022–23 Annual Report



Heritage Fund

Alberta

Alberta Heritage Savings Trust Fund Annual Report 2022-23 | Treasury Board and Finance  
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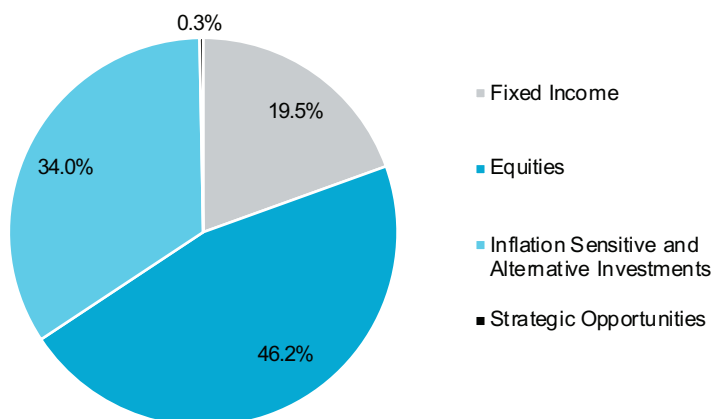
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## Highlights

**6.4%**  
(net of fees)  
**5 year Rate of return**

**\$21.2** billion  
**Fair value of net assets**

### ASSET MIX AS AT MARCH 31, 2023



**8.4%**  
(net of fees)

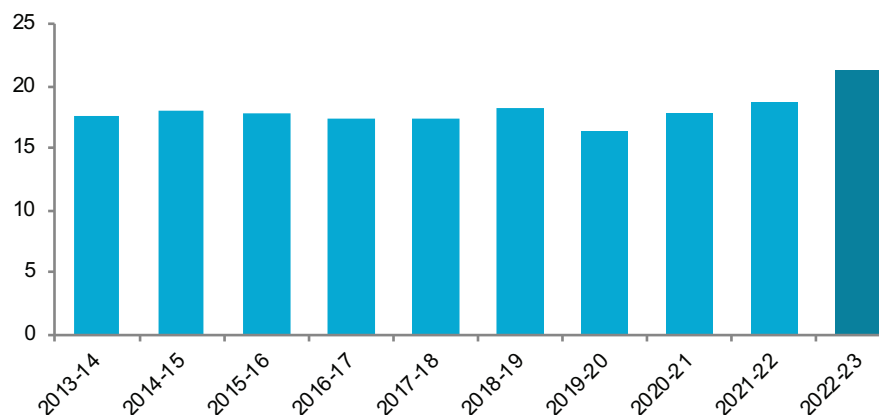
**10 year annualized  
rate of return**

**\$1.25** billion

**Investment income  
retained in the Fund from  
the 2021-22 fiscal year**

### MARKET VALUE AT MARCH 31, 2023

(billions)



**\$753** million

**Transferred to the Fund  
in 2022-23**

**\$45.8** billion

**Cumulative transfers  
to the general revenue  
fund since inception**



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

In 2022-23, the Alberta Heritage Savings Trust Fund grew by \$2.5 billion from the previous year and has a market value of \$21.2 billion.

The Heritage Fund's growth was primarily driven by government actions, first to retain \$1.25 billion in investment income from 2021-22 and, second, a deposit of \$753 million. The remaining growth came from a \$626 million increase in unrealized gains set off by \$114 million in investment losses.

Government took steps in 2022-23 to make it easier to retain investment income within the Heritage Fund by amending the *Alberta Heritage Savings Trust Fund Act*. Now, all of the Heritage Fund's annual net earnings are retained within the Heritage Fund.

The Heritage Fund is Alberta's long-term savings account, supporting both current and future generations. By making sound investment decisions, the government is ensuring the Heritage Fund yields the best long-term results to secure a bright future for Alberta.

With the responsibility of ensuring the economic well-being of Albertans and prosperity of future generations, the government is committed to growing the Heritage Fund and building a strong financial and economic legacy for the benefit of all Albertans.

[Original signed by Honourable Nate Horner]

Honourable Nate Horner  
President of Treasury Board and Minister of Finance

## About the Heritage Fund

1976	1982	1987	1995	1997
The Heritage Fund was established with an initial investment of \$2.2 billion with transfers of 30 per cent of non-renewable resource revenue to the Heritage Fund.	Non-renewable resource revenue transfers to the Heritage Fund reduced from 30 per cent to 15 per cent.	Non-renewable resource revenue transfers to the Heritage Fund ceased.	Government surveys Albertans on the Heritage Fund's future. Survey results show Albertans strongly in favour of a fund that generates long-term investment returns.	Legislation amended to eliminate the Heritage Fund's economic and social development mandate and make it the mission of the Fund to maximize long-term investment returns. The amendments also created the Standing Committee on the Alberta Heritage Savings Trust Fund.

### What is the Heritage Fund?

The Alberta Heritage Savings Trust Fund (the "Heritage Fund" or "Fund") is a \$21.2 billion fund invested for the benefit of current and future generations of Albertans.

### When was the Heritage Fund established?

The Heritage Fund was established in 1976 to collect a portion of Alberta's non-renewable resource revenue for future generations. Initially, 30 per cent of Alberta's non-renewable resource revenues were transferred to the Heritage Fund. In 1982, government reduced this transfer to 15 per cent, and subsequently eliminated all transfers to the Heritage Fund in 1987.

### Who is responsible for the Heritage Fund?

The Heritage Fund operates under the authority of the *Alberta Heritage Savings Trust Fund Act* (the "Act"). The preamble to the Act states that 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."

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

The Minister is supported by the Department of Treasury Board and Finance and the Alberta Investment Management Corporation ("AIMCo") in carrying out the responsibilities set out in the Act. The Department of Treasury Board and Finance supports the Minister in developing the Fund's long-term investment strategy and investment policies, monitoring investment performance, and preparing annual and quarterly reports for the Fund. AIMCo is responsible for investing the assets according to the Fund's investment policy and in accordance with its Mandate and Roles document and the Investment Management Agreement with the Province.

The Act also established a multi-party standing committee of the Legislative Assembly. The Standing Committee on the Alberta Heritage Savings Trust Fund ("Standing Committee") is responsible for reviewing quarterly reports and approving the annual report for the Fund. It is also required to review the performance of the Fund on an annual basis and provide a report to the Legislature as to whether the Fund's mission is being fulfilled. The Standing Committee also hosts an annual public meeting to discuss the performance and investments in the Fund and answer Albertan's questions related to the Fund.

### What is the objective when investing in the Heritage Fund?

The preamble to the Act states that 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.

The Act specifies that the mission of the Heritage Fund is to maximize long-term financial returns from its investments. The Act also specifies that the investments of the Fund must adhere to investment and lending policies, standards and procedures that a reasonable and prudent person would apply in respect of a portfolio of investments to avoid undue risk of loss and obtain a reasonable return.

2005-06	2006-07	2007-08	2016	2020	2022-23
Inflation-proofing the Fund becomes mandatory. The government deposits \$1.75 billion into the Heritage Fund.	The government deposits \$1.25 billion into the Heritage Fund.	The government deposits \$918 million into the Heritage Fund.	Alberta Growth Mandate introduced	Alberta Growth Mandate Eliminated	Legislation amended to retain all investment earnings within the Heritage Fund. The Fund retains 2021-22 investment income of \$1.25 billion and the government deposits \$753 million into the Fund, bringing the market value of the Heritage Fund to a record high of \$21.2 billion.

### What happens to the income earned in the Heritage Fund?

The Act states that the net income of the Heritage Fund accrues to and forms part of the Heritage Fund. The Act requires the Fund to retain a portion of net investment earnings to help protect against inflation and maintain the real value of the Fund over time. Any net investment earnings remaining after inflation-proofing are kept within the Fund unless Treasury Board approves a transfer of all or a portion of the remaining net investment earnings to the General Revenue Fund.

### Are the Heritage Fund's investments secure?

Yes, the investments held within the Heritage Fund are secure. They are not, however, risk free. In order to maximize long-term investment earnings, as required under the Act, the Heritage Fund must take some risk. As a result, while most years produce positive returns, there have been years with negative returns.

Risk within the Heritage Fund is managed primarily by holding a portfolio that is diversified by asset classes, sectors and geographies. The Fund holds liquid investments such as fixed income and public equities that fluctuate with daily market movements. It also holds real assets that are valued less frequently but help to protect the real purchasing power of the Fund from inflation. The design of the asset mix is an important aspect of the long-term strategy and seeks to produce returns within the total risk limits of the Fund. Each asset class has characteristics and components that compliment one another to achieve a desired total portfolio return while maintaining a prudent level of risk.

### What is the Heritage Fund worth today?

The market value of the Heritage Fund was \$21.2 billion as of March 31, 2023.

The market value increased by \$2.5 billion from the end of the 2021-22 fiscal year. The increase was a combination of retaining \$1.25 billion of net investment income from 2021-22, a \$753 million transfer from the General Revenue Fund, an increase of unrealized gains by \$626 million and a net investment loss of \$114 million.

### How has the Heritage Fund performed?

Over the last ten years, the Heritage Fund earned an investment return of 8.4 per cent and over the last five years, the investment return was 6.4 per cent. In 2022-23, the Fund's investment return was 2.6 per cent.

The target for the Heritage Fund is to earn an investment return of inflation plus 4.5 per cent over a five-year period. Inflation, as measured by the Canadian Consumer Price Index, was 2.2 per cent over the last five years and, therefore, the target five-year investment return was 6.7 per cent.

It is expected that through active management of the Heritage Fund, the Fund's investment return will be 1 per cent above its passive return benchmark over a five-year period. During the last five years, the return from active investment management was 0.4 per cent, 0.6 per cent below expectations. In 2022-23, the value added by active investment management was 1.2 per cent.

### How has Heritage Fund benefitted Albertans?

Since the creation of the Heritage Fund on May 19, 1976, \$45.8 billion has been transferred to the government to support its fiscal and capital plans.

## Portfolio construction

Proper construction of the Fund's investment portfolio is an essential component in achieving its objective of maximizing long-term earnings and managing its risk. Among other things, the Statement of Investment Policies and Goals sets out the asset classes the Fund is to be invested in and what proportion is allowable for each asset class. The allocation of assets is critical, as it is the largest determinant of long-term earnings for any investment portfolio.

The Fund's current target asset allocation is to have 20 per cent of the portfolio invested in fixed income investments, 32.5 per cent invested in inflation sensitive and alternative assets and 47.5 per cent in equity investments. The investment policy has allowable deviations from the targets that provide the asset manager discretion to use its expertise to improve the Fund's returns. Each asset class contributes risk and return. The portfolio's combination of asset classes seeks to maximize risk-adjusted returns. Investments that do not fit the risk appetite of the Heritage Fund are avoided in efforts to protect the Fund from losses.

Fixed income investments have lower risks and expected returns when compared to other asset classes and help to stabilize the Fund's year-over-year returns. The Fund's allocation to this asset class is dominated by investment in publicly traded bonds. Investments in private debt and mortgages provide additional diversification and return opportunities within this asset class.

Alternative investments include real estate, renewable resource and infrastructure assets. Returns on these assets are expected to perform well in inflationary environments, as they have revenue streams that adjust for inflation. Alternative investments have lower levels of liquidity than publicly traded assets and may offer additional returns due to illiquidity premiums. The Heritage Fund's mandate is to maximize long-term returns. These types of assets fit well with the investment strategy of the Fund, as the long-term holding period allows for investments to provide returns over extended periods of time.

Equity investments have historically produced high returns and are subject to different risks than the other two broad asset classes. The public equity portfolio consists of a mix of global, Canadian and emerging market equities, with a majority of the focus on global diversification. A global focus provides access to a greater number of opportunities and lower risk due to additional diversification. This focus has benefitted the Fund in the last ten years, as global equities have generally outperformed Canadian equities.

The Fund also has an allocation to private equity. These are investments in private companies that have strong growth potential due to underlying fundamentals. Additionally, the asset manager may be able to encourage additional growth due to professional expertise and networks. These investments are expected to outperform public equities over the long run but, as with inflation sensitive and alternative investments, private equities are less liquid and are often held for long periods of time.



# Return targets

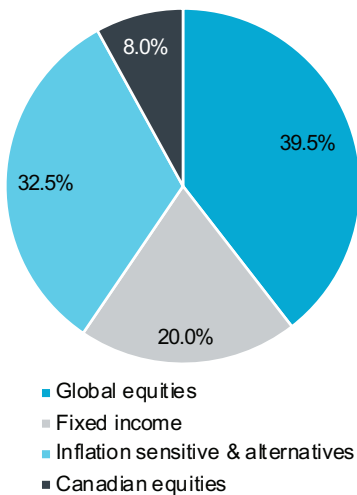
The Fund has two return targets: a real return target and an active management target. The real return target helps to evaluate whether the Fund's asset allocation is able to produce appropriate real returns over time. The target is to earn a return that is equal to or greater than an average return of 4.5 per cent plus inflation over a five-year period.

The active management target helps to evaluate the investment manager's value-added performance over time. Active management of the Fund creates additional risk with additional return potential; therefore, the Fund's target is that actual returns will be at least 1 per cent higher than the returns of a passive managed portfolio over a rolling five-year period.

In accordance with the investment policy, over a five-year period, it is expected that the Heritage Fund will earn an average return of 4.5 per cent adjusted for inflation, based on the Canadian Consumer Price Index. At the reporting date, the CPI + 4.5 per cent annualized, five-year rolling average, was 6.7 per cent, while the Fund return was 6.4 per cent. The passive portfolio benchmark return over the same time frame was 6 per cent. This means that 0.4 per cent of the Fund's return was added by active management.

Despite the recent pressure on asset values, over the past 10 years, the Fund has earned an average annual return of 8.4 per cent. Over 10 years, relative value added was 0.7 per cent, as the passive benchmark return over that period was 7.7 per cent.

## LONG-TERM TARGET POLICY ASSET MIX



## The 2022-23 fiscal year in review

The Heritage Fund realized a return of 2.6 per cent in the fiscal year 2022-23. Net financial assets at the end of the fiscal year were \$21.2 billion, representing an increase of \$2.5 billion year-over-year. The Fund has benefitted from investment returns in addition to a contribution from the government of \$753 million and the retention of \$1.25 billion in investment income earned in 2021-22. The portfolio is well positioned to take advantage of current and future opportunities.

Interest rate increases in Canada and in other countries had a large influence on the markets and investment returns during the year. The rate increases had the most significant impact on the publicly traded assets held within the equities and fixed income asset classes. A decline in equities and fixed income, at the same time and of this magnitude, had not been witnessed for over forty years. The new year commenced on a robust note, further building upon the positive momentum that began in the public markets in the third fiscal quarter of the 2022-23 fiscal year.

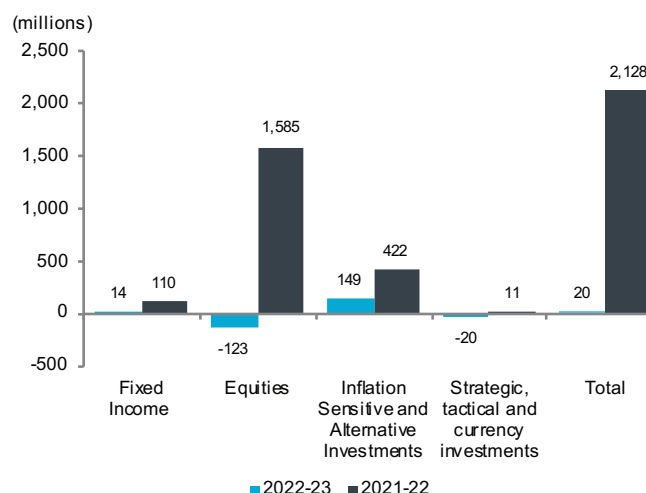
Equity investments, which make up almost half of the Heritage Fund's portfolio, experienced substantial volatility during the fiscal year. Global economic uncertainties, geopolitical tensions, and changing investor sentiments drove fluctuations in equity prices. Additionally, supply chain disruptions, rising input costs, and labour shortages affected specific sectors, causing divergent performances across industries. Portfolio managers had to be nimble in their approach, capitalizing on sectors poised for growth while managing risks associated with market fluctuations.

## Investment income

The Fund generated gross earnings of \$20 million and a net loss of \$114 million, after investment expenses of \$134 million. This is only the third time that the Heritage Fund reported a net investment income loss since its inception in 1976. Net investment earnings were \$1,949 million lower than estimated in Budget 2022. The main driver of the difference between the budget and actual results were the challenges faced by global markets during the first half of the fiscal year.

Equities historically have been the strongest source of income due to performance and their high overall weighting within the portfolio. Interest-bearing securities bring in stable income in a way that is less risky than other alternatives. Inflation-sensitive investments represent assets that have cash-flows strongly correlated with inflation, such as rent. The adaptability of the cash-flow stream and ability to add value in unconventional ways makes this asset class valuable to the Fund.

### INVESTMENT INCOME BY ASSET CLASS



Equity investments produced a loss of \$123 million during 2022-23. In comparison, this asset class produced \$1.6 billion in income during the 2021-22 fiscal year. Equity valuations were depressed in the first half of the fiscal year, following a series of interest rate hikes. Changes to the equity platform by the asset manager also had an impact on the timing of asset dispositions, and caused some losses to be realized earlier than expected. Positive sentiment in the latter half of the year propelled equity valuations higher, however, these returns were not sufficient to overcome the losses realized earlier in the year.

Fixed income investments produced only \$14 million during the fiscal year because of rising interest rates, which caused significant decreases in market values for fixed income. These losses were offset by positive interest payments received during the fiscal year.

Inflation sensitive and alternative investments were the biggest contributor to earnings in the 2022-23 fiscal year, providing \$149 million in earnings. Investments in this asset class produced consistent cash flow streams due to the ability to pass inflation increases on to customers. In recent years, this asset class has provided consistent, positive returns to the Fund.

Strategic investments, which allow the asset manager to take advantage of difficult to classify opportunities contributed a loss of \$20 million during 2022-23.

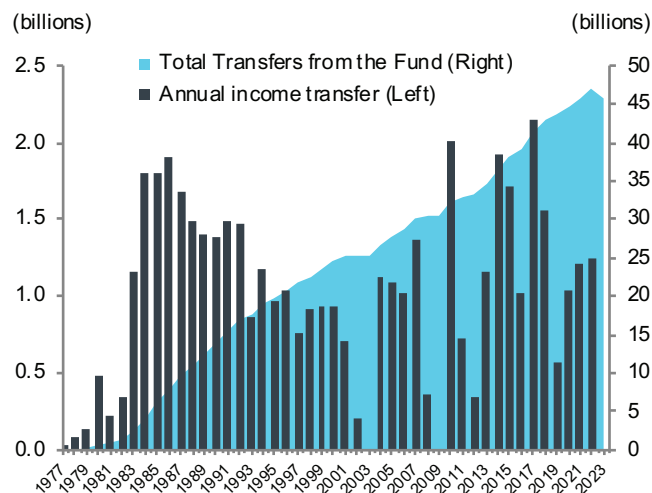
## Transfers, contributions, and inflation

The Heritage Fund was established in 1976 and was funded by allocations of non-renewable resource revenue. Initially, 30 per cent of resource revenue was deposited into the Fund. The allocation was reduced to 15 per cent starting in 1983-84 and it was terminated after 1986-87. A total of \$12 billion in non-renewable resource revenue was deposited into the Fund. The Heritage Fund received \$3.9 billion in deposits from 2005-06 to 2007-08.

Income transfers from the Fund to the government's General Revenue Fund began in 1982-83 and since then \$42 billion has been transferred to the General Revenue Fund. During its first 11 years, the Fund was also used to pay for capital projects and to seed other endowments. Between 1976 and 1995, \$3.5 billion was used to pay for capital projects and transfers of just over \$600 million were made to other provincial endowment funds. Since inception, a total of \$45.8 billion has been transferred from the Fund.

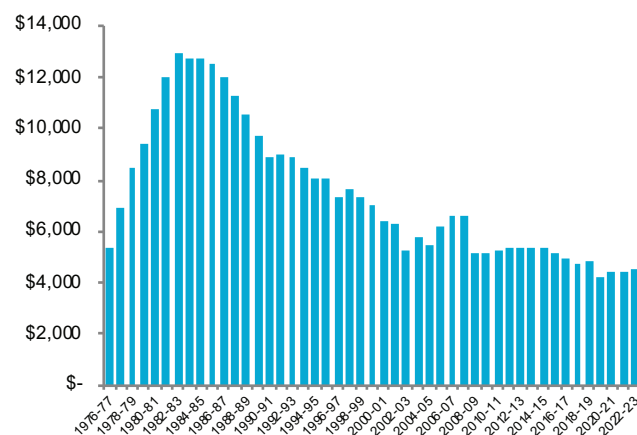
The requirement to inflation-proof the Heritage Fund began in 2005-06, after the Province had repaid its accumulated debt in 2004-05. Prior to 2005-06, investment income retained for inflation-proofing occurred three times with a total of \$431 million of investment income being retained by the Fund. Since 2005-06, earnings of \$4.6 billion have been retained in the Fund for inflation-proofing.

## INCOME AND CUMULATIVE TRANSFER TO GRF



## MARKET VALUE INFLATION ADJUSTED PER CAPITA

(2023 dollars)



During 2022-23, the value of the Fund grew by \$2 billion due to the government actions. The investment earnings of \$1.25 billion from 2021-22 were retained with the Fund, instead of being transferred to the General Revenue Fund. The government also transferred \$753 million into the Heritage Fund during the year.

The Fund's per capita market value has declined significantly since peaking in 1983 when the value of the Fund was about \$12,380 per Albertan. At the end of 2022-23, the market value was approximately \$4,500 per Albertan. This decline has been caused by three main factors. First, the allocations of resource revenue was terminated in 1986-87. Second, most of the Fund's earnings have been transferred out of the Fund and into the General Revenue Fund. Third, Alberta's population has more than doubled since 1976, growing from approximately 1.9 million people to over 4.6 million people.

The retention of investment earnings within the Heritage Fund will cause the per capita value of the Fund to reverse the downward trend that began in 1983. The immediate impact will come mainly from the retention of earnings in the Fund. Over time, however, the investment earnings will become more important due to the impact of compounding those earnings.

## Investment expenses

The Fund's investment expenses were \$134 million during the 2023-23 fiscal year, \$42 million lower than the prior year due primarily to a decrease in performance-based expenses. The relative cost of the Fund was 0.7 per cent, 0.2 per cent lower than in 2021-22.

### INVESTMENT EXPENSES

(millions)	2023	2022
Total investment expenses	\$134.00	\$176.00
Increase in average investments	5.0%	9.2%
Investment expense per dollar invested	0.7%	0.9%

## Asset mix

The target asset mix for the Fund is split into three main categories: 20 per cent fixed income, 32.5 per cent inflation sensitive and alternative investments and 47.5 per cent in equities. The asset mix is a main driver of returns for the Fund. The investment manager is permitted to overweight or underweight these asset classes to take advantage of sectors that are outperforming.

### ASSET MIX (LONG-TERM TARGET ASSET MIX)

	Target	March 2023	March 2022	Policy Range
<b>Fixed income</b>	<b>20.0%</b>	<b>19.5%</b>	<b>18.4%</b>	<b>15-45%</b>
Deposits and short-term		0.6%	0.4%	0-25%
Bonds, mortgages and private debt		19.0%	18.0%	10-35%
<b>Inflation-sensitive and alternative investments</b>	<b>32.5%</b>	<b>34.0%</b>	<b>30.8%</b>	<b>15-40%</b>
Real estate		19.1%	19.2%	10-20%
Infrastructure		11.6%	9.2%	5-15%
Renewable resources		3.3%	2.4%	0-5%
<b>Equities</b>	<b>47.5%</b>	<b>46.2%</b>	<b>50.4%</b>	<b>35-70%</b>
Canadian		7.9%	9.0%	5-15%
Global developed		26.1%	28.5%	20-65%
Emerging markets		3.3%	3.5%	0-10%
Private		8.9%	9.4%	0-10%
<b>Strategic opportunities</b>	<b>0.0%</b>	<b>0.3%</b>	<b>0.4%</b>	<b>0-5%</b>

## Investment performance

Performance during the fiscal year changed from negative to positive due largely to the improvement in equity returns in the second half of the year. The Fund earned a market value return of 2.6 per cent, outperforming the passive benchmark return by 1.2 per cent.

Over the past five years, the Fund has earned an annualized return of 6.4 per cent, and over the last ten years it has earned 8.4 per cent, surpassing the passive policy benchmark by 40 basis points and 70 basis points, respectively.

The Fund's target is to earn a real return of 4.5 per cent over a five year period; in other words, a return that is 4.5 per cent higher than inflation over five years. In the past year, the Fund's real return and real return target has had to

deal with two depressed markets and a steep rise in inflation. While the Fund's focus is long term and a single period is not how success is measured, these events have impacted both the returns and the real return target. Average inflation was 2.2 per cent over the 5 year period, making the target return 6.7 per cent. The Fund's annualized return over the same five years was 6.4 per cent meaning that the fund is below its real return target by 0.3 per cent.

Over a rolling five-year period, it is expected that the investment manager add 100 basis points, or 1 per cent, of value above the return that the Fund would have earned if it was passively invested. The return over the passive benchmark return for the last five years was 0.4 per cent or 0.6 per cent below the active management target.

### TOTAL FUND PERFORMANCE

	2022-23	2021-22	5 Year	10 Year
<b>Fund rate of return</b>	<b>2.6</b>	<b>11.8</b>	<b>6.4</b>	<b>8.4</b>
Real return target - CPI + 4.5	7.6	7.0	6.7	6.4
<b>Fund return against real return target</b>	<b>(5.1)</b>	<b>4.8</b>	<b>(0.3)</b>	<b>2.0</b>
Passive benchmark return	1.4	6.6	6.0	7.7
<b>Active management return (target 100 bps)</b>	<b>1.2</b>	<b>5.2</b>	<b>0.4</b>	<b>0.7</b>

### ASSET CLASS RETURN VERSUS BENCHMARK

	1 Year Return	1 Year Benchmark Return	5 Year Return	5 Year Benchmark Return
<b>Fixed income</b>	<b>0.0</b>	<b>-0.5</b>	<b>2.4</b>	<b>1.6</b>
Deposits and short-term	2.9	-2.0	1.5	0.9
Bonds, mortgages and private debt	0.0	-0.5	2.4	1.6
<b>Inflation sensitive and alternative investments</b>	<b>8.4</b>	<b>2.9</b>	<b>5.4</b>	<b>4.8</b>
Real estate	2.0	-0.2	3.0	3.5
Infrastructure	13.2	7.6	7.3	6.7
Renewable resources	41.2	7.6	16.4	6.7
<b>Equities</b>	<b>0.2</b>	<b>1.2</b>	<b>8.6</b>	<b>8.4</b>
Canadian	-3.5	-5.2	7.7	8.8
Global developed	1.8	0.3	7.4	8.0
Emerging markets	-1.4	0.3	-0.5	8.0
Private	-1.7	9.6	14.2	8.7
<b>Strategic Opportunities</b>	<b>-13.5</b>	<b>0.3</b>	<b>-1.2</b>	<b>8.0</b>

# Equities

For the 2022-23 fiscal year, equities seemed unable to regain the positive momentum that was seen in the 2021-22 fiscal year. Investors' thoughts were focused on uncertainty during the year, in particular how the large rise in inflation and interest rates would affect equity returns. While major equity markets were unable to produce any sizable positive performance, they did not retract in any big way either. The larger downswings were kept to only the first two quarters of the 2022-23 fiscal year. Despite these challenges, the asset class was able to maintain its value with a near flat return of 0.2 per cent. This asset class was unable to outperform the policy benchmark, missing its goal by 1 per cent. The value of the investments in the equities asset class were lower by \$609 million this fiscal year, decreasing to approximately \$9.4 billion, or 46.2% of the total portfolio. Over the past five years, equity investments have earned an annualized return of 8.6 per cent, 0.2 per cent higher than the benchmark return. Over the last 10 years, the asset class produced returns of 10.8 per cent, meeting the benchmark.

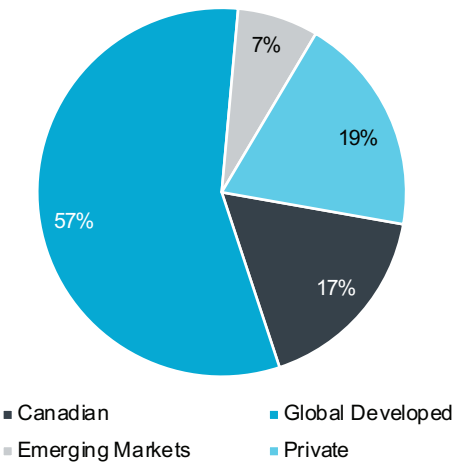
The Fund's Canadian equity holdings were not immune to the economic challenges presented in the last fiscal year. The Canadian equities asset class earned a return of negative 3.5 per cent during the year and still outperformed the benchmark return of negative 5.2 per cent by 1.7 per cent. From an active management standpoint, this marks the third year in a row that returns from this allocation have exceeded the benchmark. Over five years, Canadian equities have returned 7.7 per cent, which is 1.1 per cent lower than the 8.8 per cent return on the benchmark.

The global developed equity portfolio posted a 1.8 per cent return for the fiscal year, surpassing the benchmark return of 0.3 per cent by 1.5 per cent. In the last five years, the return on global equities has been 7.4 per cent, 0.6 per cent lower than the benchmark return of 8 per cent.

Global non-developed or emerging markets have a larger sensitivity to economic shifts, both positive and negative. Over the fiscal year, global non-developed equities detracted from overall performance, with a return of negative 1.4 per cent.

The private equity portfolio is comprised of a variety of domestic and foreign investments that include providing capital for expansions and acquisitions, management buyouts, turnaround financing, project financing and leverage reductions. The private equity portfolio had the strongest equity class performance last year but with the current economic conditions only managed a return of negative 1.7 per cent for the fiscal year, 11.3 per cent lower than the benchmark return of 9.6 per cent. Private equities have produced a return of 14.2 per cent in the last five years, 5.5 per cent higher than the 8.7 per cent return on its benchmark.

## EQUITIES



### TOP 10 CANADIAN PUBLIC EQUITY HOLDINGS

As at March 31, 2023

Holding	Weight (%)	\$ in Millions
Royal Bank of Canada	3.8%	\$61.9
Toronto-Dominion Bank/The	3.0%	\$48.4
Enbridge Inc	2.2%	\$36.1
TC Energy Corp	2.0%	\$31.7
Canadian National Railway Co	1.7%	\$28.0
Bank of Nova Scotia/The	1.6%	\$26.0
Shopify Inc	1.6%	\$25.6
Canadian Pacific Railway Ltd	1.6%	\$25.2
Brookfield Asset Management Inc	1.3%	\$21.6
Barrick Gold Corp	1.3%	\$21.4
Total	20.2%	\$325.9

### TOP 10 PRIVATE EQUITY HOLDINGS

As at March 31, 2023

Name	Sector
Permira Vi	Fund
Schustermann & Borenstein (Prestige)	Consumer Discretionary
Hggc Fund Iii-A	Fund
Genstar Capital Partners Viii Bl Lp	Fund
Khosla Ventures Iv	Fund
Genstar Viii Opportunities I (Co-Invest)	Fund
Thoma Bravo Fund Xiii	Fund
Carlyle FrI Lp	Financials
Centerbridge Capital Partners Iii Lp	Fund
Platinum Equity Capital Partners Iv	Fund

### TOP 10 GLOBAL PUBLIC EQUITY HOLDINGS

As at March 31, 2023

Name	Weight (%)	\$ in Millions
Fairfax Financial Holdings Switzerland Gmbh-Pfd 8	4.5%	\$84.1
First Citizens Bcshts -Cl A	2.3%	\$23.8
Samsung Electronics-Pref	1.8%	\$19.4
Gilead Sciences Inc	1.7%	\$19.0
Apple Inc	1.0%	\$18.4
Siemens Energy Ag	1.0%	\$16.5
Csa Collateral National Bank Of Canada	0.9%	\$16.0
Genting Singapore Ltd	0.8%	\$15.4
Tourmaline Oil Corp	0.8%	\$14.9
Jde Peet's Nv	0.8%	\$14.6
Total	15.7%	\$242.2

Holdings do not include global public equity investments held in invested funds.

# Fixed income

Fixed income assets provide value to the Fund by holding high quality liquid assets that generate investment income through interest payments. Returns tend to be stable over time, however, the last fiscal year was a significant event year for this asset class. While returns from fixed income are more stable than the returns for other asset classes overtime, a historical number of interest rate increases caused the returns from this asset class to be negative in 2022-23. Performance within this asset class was stronger in those investments that were able to take advantage of the higher rate market.

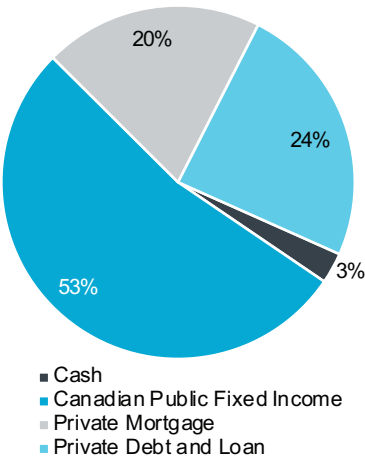
The Fund held \$3.9 billion of fixed income investments as of March 31, 2023, an increase of \$311 million over the end of the previous year. During the fiscal year, the fixed income portfolio had a 0 per cent return, 0.5 per cent higher than the return on its benchmark. Over the last five years, the Fund's fixed income investment return was 2.4 per cent, outperforming the benchmark return of 1.6 per cent by 0.8 per cent.

The bond segment is mostly composed of high quality government and corporate bonds. These assets have been impacted by rising interest rates, and had a return of negative 1.8 per cent return for the fiscal year, 0.2 per cent higher than the negative 2 per cent return on the benchmark. The five-year return on bond investments of 1.5 per cent is 0.6 per cent higher the benchmark return of 0.9 per cent.

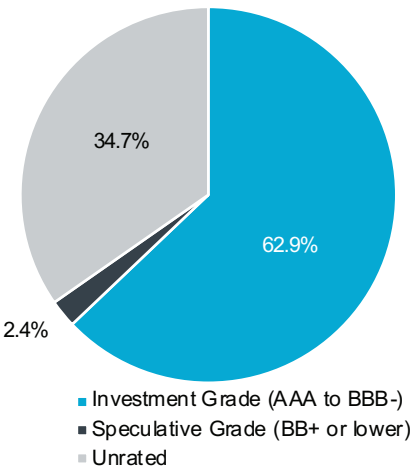
Private mortgage investments are included in the portfolio to diversify credit exposure and increase yields. During the last year, private mortgages earned a return of 0.7 per cent, underperforming the benchmark return of 1 per cent by 0.3 per cent. The five-year return on private mortgage investments of 3.7 per cent is 1.4 per cent higher than the benchmark return of 2.3 per cent.

Investments in private debt and loans consist of specialty loans and financing for corporations that do not meet the requirements of other financing structures and methods. These investments diversify the fixed income portfolio while taking advantage of substantially higher credit spreads compared to publicly traded bonds. The private debt and loans asset class tends to carry more floating rate investments, which in a rising rate environment results in positive returns. In 2022-23, private debt and loans earned a return of 6.4 per cent, which was 3.4 per cent higher than the 3 per cent benchmark returns. The private debt and loan portfolio has produced returns of 6 per cent over the past five years, 2.6 per cent higher than the benchmark return of 3.4 per cent.

## FIXED INCOME



## RATINGS





# Inflation sensitive and alternative investments

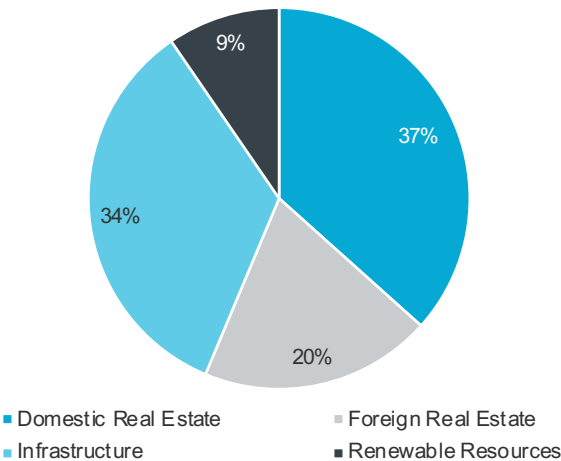
Inflation sensitive and alternative assets are expected to provide an inflation adjusted income stream in addition to capital appreciation for the Fund. These assets also improve the risk and return profile of the Fund due to the diversifying effects that they have when compared to equities and fixed income. Inflation sensitive and alternative assets saw an increase in total holdings with \$6.9 billion of the Fund invested in this asset class, a \$816 million increase from the end of the previous year. This asset class was the best performing asset class for the Fund.

Real estate investments had tepid returns this year when compared to 2021-22, because much of the demand that was driven by lower interest rate has disappeared as interest rates increased. That combined with the shift to remote work has depressed downtown commercial real estate demand. Real estate investments had a return of 2 per cent during the year compared to a return on the real estate benchmark of negative 0.2 per cent. During the last five years, the real estate portfolio has produced returns of 3 per cent. This return is 0.5 per cent lower than the five-year benchmark return of 3.5 per cent.

The return on the Fund's renewable resource investments had a stunning return this year with a significant increase in asset value. This year's return for renewable resources was 41.2 per cent while the benchmark return was 7.6 per cent, an outperformance of 33.6 per cent. The returns over five years continue to compare very well to the benchmark, as actual returns over five years were 16.4 per cent, 9.7 per cent higher than the benchmark return of 6.7 per cent.

Infrastructure investments include transportation and logistics assets (for example, toll roads and rail), power and energy investments (for example, power generation and transmission as well as pipelines) and utilities (for example, water, wastewater and natural gas networks). During the year, these investments returned 13.2 per cent, outperforming the benchmark return of 7.6 per cent by 5.6 per cent. Over the past five years, infrastructure investments have earned a return of 7.3 per cent, 0.6 per cent higher than the benchmark return of 6.7 per cent.

## INFLATION-SENSITIVE



## TOP 10 DOMESTIC REAL ESTATE HOLDINGS

As at March 31, 2023

Property	Sector	Location
Yorkdale Shopping Centre - Equity	Retail	Ontario
Td Greystone Re Fund	Fund	Canada
Square One Properties Reptyequ	Retail	Ontario
Scotia Tower	Office	Ontario
Urbacon - Dc7	Industrial	Ontario
Scarborough Town Centre - Equity	Retail	Ontario
Edmonton Tower	Office	Alberta
Urbacon Dc2	Industrial	Ontario
Cf Richmond Centre	Retail	Ontario
Caledon Healey Road Lands	Industrial	Ontario
Total - Top 10 Holdings	\$1,224.1 (millions)	

## TOP 10 FOREIGN REAL ESTATE

As at March 31, 2023

Property	Sector	Region
Alpine Aur Fund	Industrial	Europe
Waypoint	Residential	Europe
Almanac Realty Public Securities	Fund	USA
Iqhq-2020	Equity	USA
Gateway Central-West	Office	UK
Docks Bruxsel	Retail	Europe
Ultrabox Logistics Uk	Industrial	UK
Network Paris	Office	Europe
Whitewood Tv City	Office	UK
Barnhart Am Mexico Fund I	Fund	Mexico
Total - Top 10 Holdings	\$384.8 (millions)	

## TOP RENEWABLE RESOURCE HOLDINGS

As at March 31, 2023

Holding	Geography
Forestry Investment Trust	Australia
Australia New Zealand Forest Fund	Australia and New Zealand
Global Timber Investors 8	Australia, New Zealand, and Latin America

## TOP INFRASTRUCTURE HOLDINGS

As at March 31, 2023

Company	Sector	Geography
Saesa Group	Integrated Utilities	Chile
Puget Energy Inc.	Integrated Utilities	United States
Porterbrook Equity	Transportation	United Kingdom
Spower - Equity	Renewable Energy	United States
London City Airport - Shareholder's Loan	Transportation	United Kingdom
Howard Midstream Energy li - Equity	Pipelines & Midstream	United States
Macquarie Asia Infrastructure Fund 2 Lp	Fund	Fund
Spower - Intercompany Loan	Renewable Energy	United States
Bai Us - Equity	Telecommunications	Global
Howard Midstream Energy - Debt	Pipelines & Midstream	United States

## Currency exposure

The Fund invests in a globally diversified portfolio but a majority of its assets remain denominated in Canadian dollars. Canadian dollar investments amounted to 63.0 per cent of the Fund at March 31, 2023, which is 1 per cent lower than last year. The remainder of the assets are invested in over 30 other currencies, including U.S. dollars, Euros, Japanese yen, and British pounds. The Fund's largest foreign currency exposure is to the U.S. dollar at 20 per cent.

## CURRENCY EXPOSURE

As at March 31, 2023

	2022-23	2021-22
U.S. Dollar	55.8%	61.1%
Euro	13.4%	12.1%
British Pound	9.5%	9.1%
Japanese Yen	4.8%	4.8%
Hong Kong dollar	2.8%	1.8%
Other	13.6%	11.0%
Total	100.0%	100.0%

## Alberta exposure

The Fund has roughly \$0.9 billion invested in Alberta, including various properties located in Alberta and securities issued by public companies headquartered in the province. Sector exposures primarily include real estate, oil and gas, renewable energy and agriculture. These investments do not include businesses that have a significant economic presence in Alberta but are headquartered elsewhere.

## ALBERTA EXPOSURE

As at March 31, 2023

Asset class	Market value (millions)
Fixed Income	-\$149.99
Mortgages	\$110.72
Equity	\$469.46
Private Equity	\$1.10
Real Estate	\$520.20
Total	\$951.49

## Historical summary of operations

May 19, 1976 to March 31, 2023

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

Fiscal year	Net income (loss) <sup>1</sup>	Transfers to the Fund			Transfers from the Fund			Fund equity (at cost)	Income retained for inflation proofing
		Resource revenue allocation	Deposits	Advanced education endowment <sup>2</sup>	Investment income transfers <sup>3</sup>	Capital project expenditures	Other transfers		
1976-77	88	2,120	-	-	-	(36)	-	2,172	-
1977-78	194	931	-	-	-	(87)	-	3,210	-
1978-79	294	1,059	-	-	-	(132)	-	4,431	-
1979-80	343	1,332	-	-	-	(478)	-	5,628	-
1980-81	724	1,445	-	-	-	(227)	-	7,570	-
1981-82	1,007	1,434	-	-	-	(349)	-	9,662	-
1982-83	1,482	1,370	-	-	(867)	(296)	-	11,351	-
1983-84	1,467	720	-	-	(1,469)	(330)	-	11,739	-
1984-85	1,575	736	-	-	(1,575)	(228)	-	12,247	-
1985-86	1,667	685	-	-	(1,667)	(240)	-	12,692	-
1986-87	1,445	217	-	-	(1,445)	(227)	-	12,682	-
1987-88	1,353	-	-	-	(1,353)	(129)	-	12,553	-
1988-89	1,252	-	-	-	(1,252)	(155)	-	12,398	-
1989-90	1,244	-	-	-	(1,244)	(134)	-	12,264	-
1990-91	1,337	-	-	-	(1,337)	(150)	-	12,114	-
1991-92	1,382	-	-	-	(1,382)	(84)	-	12,030	-
1992-93	785	-	-	-	(785)	(84)	-	11,946	-
1993-94	1,103	-	-	-	(1,103)	(71)	-	11,875	-
1994-95	914	-	-	-	(914)	(49)	-	11,826	-
1995-96	1,046	-	-	-	(1,046)	-	-	11,826	-
1996-97	932	-	-	-	(756)	-	-	12,002	176
1997-98	947	-	-	-	(922)	-	-	12,027	25
1998-99	932	-	-	-	(932)	-	-	12,027	-
1999-00	1,169	-	-	-	(939)	-	-	12,257	230
2000-01	706	-	-	-	(706)	-	-	12,257	-
2001-02	206	-	-	-	(206)	-	-	12,257	-
2002-03	(894)	-	-	-	-	-	-	11,363	-
2003-04	1,133	-	-	-	(1,133)	-	-	11,363	-
2004-05	1,092	-	-	-	(1,092)	-	-	11,363	-

Fiscal year	Net income (loss) <sup>1</sup>	Transfers to the Fund			Transfers from the Fund			Fund equity (at cost)	Income retained for inflation proofing
		Resource revenue allocation	Deposits	Advanced education endowment <sup>2</sup>	Investment income transfers <sup>3</sup>	Capital project expenditures	Other transfers		
2005-06	1,397	-	1,000	750	(1,015)	-	-	13,495	382
2006-07	1,648	-	1,000	250	(1,365)	-	-	15,028	283
2007-08	824	-	918	-	(358)	-	-	16,412	466
2008-09	(2,574)	-	-	-	-	-	-	13,838	-
2009-10	2,006	-	-	-	(2,006)	-	-	13,838	-
2010-11	1,080	-	-	-	(720)	-	-	14,198	360
2011-12	798	-	-	-	(344)	-	-	14,652	454
2012-13	1,316	-	-	-	(1,155)	-	-	14,813	161
2013-14	2,109	-	-	-	(1,916)	-	-	15,006	193
2014-15	1,678	-	-	-	(1,468)	-	(255)	14,961	210
2015-16	1,238	-	-	-	(1,029)	-	-	15,170	209
2016-17	2,333	-	-	-	(2,151)	-	-	15,352	182
2017-18	1,787	-	-	-	(1,557)	-	-	15,582	230
2018-19	937	-	-	-	(563)	-	-	15,956	374
2019-20	1,318	-	-	-	(1,031)	-	-	16,243	287
2020-21	1,354	-	-	-	(1,208)	-	-	16,389	146
2021-22	1,952	-	-	-	(1,247)	-	-	17,094	705
2022-23	(114)	-	753	-	1,247	-	-	18,980	-
Totals	48,012	12,049	3,671	1,000	(42,011)	(3,486)	(255)	18,980	5,073

1. The income of the Fund and its assets and liabilities, net of consolidation adjustments, is included in the consolidated financial statements of the Government of Alberta.
2. The *Access to the Future Act*, which was rescinded in 2019, allowed for a maximum of \$3 billion to be transferred into the Fund to support the advanced education endowment.
3. Until amended in March 2023, 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. In 2022-23 the *Financial Statutes Amendment Act, 2023* (Bill 10) included amendments to Section 8 of the Act to retain all investment earnings within the Heritage Fund unless Treasury Board approves a transfer of earnings above inflation proofing to the General Revenue Fund, beginning in 2021-22. The investment income of \$1,247 million for 2021-22 was retained in the Heritage Fund in 2022-23.
4. Bill 12, *Appropriation (Supplementary Supply) Act*, 2023, appropriated \$753 million from the GRF to the Fund in 2022-23.



# Annual Financial Statements

Alberta Heritage Savings Trust Fund  
March 31, 2023

## Independent Auditor's Report

To the President of Treasury Board and Minister of Finance

## Report on the Financial Statements

### Opinion

I have audited the financial statements of Alberta Heritage Savings Trust Fund (the Fund), which comprise the statement of financial position as at March 31, 2023, and the statements of operations and accumulated surplus, remeasurement gains and losses, change in net financial assets, and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 2023, and the results of its operations, its remeasurement gains and losses, its changes in net financial assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

### Basis for opinion

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

### Other information

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

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

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

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

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

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

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

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

## Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

June 6, 2023  
Edmonton, Alberta

## Statement of Financial Position

As at March 31, 2023

(in millions)

	2023	2022
<b>Financial assets</b>		
Investments (Note 3)	\$ 20,474	\$ 19,962
Due from the General Revenue Fund	753	-
	21,227	19,962
<b>Liabilities</b>		
Due to the General Revenue Fund	-	1,247
<b>Net financial assets</b>	<b>\$ 21,227</b>	<b>\$ 18,715</b>
<b>Net financial assets (Note 5)</b>		
Accumulated operating surplus	\$ 18,980	\$ 17,094
Accumulated remeasurement gains	2,247	1,621
	<b>\$ 21,227</b>	<b>\$ 18,715</b>

## Statement of Change in Net Financial Assets

Year Ended March 31, 2023

(in millions)

	2023	2022
	Budget	Actual
Net surplus retained in the Fund	\$ 372	\$ 1,886
Net remeasurement gains		626
<b>Increase in net financial assets</b>		<b>2,512</b>
<b>Net financial assets, beginning of year</b>		<b>18,715</b>
<b>Net financial assets, end of year</b>	<b>\$ 21,227</b>	<b>\$ 18,715</b>

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



## Statement of Operations and Accumulated Surplus

Year Ended March 31, 2023

(in millions)

	2023 Budget	2023 Actual	2022 Actual
Investment income (Note 6)	\$ 1,976	\$ 20	\$ 2,128
Investment expenses (Note 7)	(141)	(134)	(176)
<b>Net (loss) income from operations</b>	<b>1,835</b>	<b>(114)</b>	<b>1,952</b>
Transfers from the General Revenue Fund (Note 5e)	-	753	-
Transfer recovery (Note 5b)	-	1,247	-
Transfers to the General Revenue Fund (Note 5b)	(1,463)	-	(1,247)
<b>Net surplus retained in the Fund (Note 5)</b>	<b>\$ 372</b>	<b>1,886</b>	<b>705</b>
Accumulated operating surplus, beginning of year		17,094	16,389
<b>Accumulated operating surplus, end of year</b>		<b>\$ 18,980</b>	<b>\$ 17,094</b>

## Statement of Remeasurement Gains and Losses

Year Ended March 31, 2023

(in millions)

	2023	2022
Unrealized gains on investments	\$ 386	\$ 463
Less: Amounts reclassified to the Statement of Operations - realized losses (gains) on investments	240	(256)
<b>Net remeasurement gains</b>	<b>626</b>	<b>207</b>
Accumulated remeasurement gains, beginning of year	1,621	1,414
<b>Accumulated remeasurement gains, end of year</b>	<b>\$ 2,247</b>	<b>\$ 1,621</b>

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

# Statement of Cash Flows

Year Ended March 31, 2023

(in millions)

	2023	2022
<b>Operating transactions</b>		
Net (loss) income from operations	\$ (114)	\$ 1,952
Non-cash items included in net income	240	(256)
	126	1,696
Decrease in accounts receivable	-	13
Decrease in accounts payable	-	(14)
Transfers from (to) the General Revenue Fund	2,000	(1,247)
(Decrease) increase in amounts due to the General Revenue Fund	(1,247)	505
Increase in amounts due from the General Revenue Fund	(753)	-
Cash provided by operating transactions	126	953
<b>Investing transactions</b>		
Proceeds from disposals, repayments and redemptions of investments	8,848	2,530
Purchase of investments	(8,956)	(3,489)
Cash applied to investing transactions	(108)	(959)
<b>Increase (decrease) in cash</b>	18	(6)
Cash at beginning of year	95	101
<b>Cash at end of year</b>	<b>\$ 113</b>	<b>\$ 95</b>
<b>Consisting of deposits and short-term securities</b>	<b>\$ 113</b>	<b>\$ 95</b>

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

# Notes to the Financial Statements

March 31, 2023

## NOTE 1 AUTHORITY AND MISSION

---

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

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

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

## NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

---

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

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

### a) VALUATION OF INVESTMENTS

Investments are recorded at fair value. As disclosed in Note 3, the Fund’s investments consist primarily of direct ownership in units of pooled investment funds (“the pools”). The pools are established by Ministerial Order 04/2016, being the Establishment and Maintenance of Pooled Funds, pursuant to the *Financial Administration Act* of Alberta, Chapter F-12, Section 45, and the *Alberta Investment Management Corporation Act* of Alberta, Chapter A-26.5, Section 15 and 20. Participants in pools include government and non-government funds and plans.

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

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

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

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

Investments in pool units are recorded in the Fund's accounts on a trade date basis. All purchases and sales of the pool units are in Canadian dollars.

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

Impairment in the value of investments is assessed on a periodic basis. If an impairment deemed other-than-temporary is identified, the cost of the investment is written down to its realizable value. Any impairment losses are included in income on the statement of operations and accumulated surplus. A write-down of a portfolio investment to reflect a loss in value is not reversed for a subsequent increase in value.

**b) INVESTMENT INCOME**

- i) Income distributions from the pools are recorded in the Fund's accounts and included in investment income on the statement of operations and accumulated surplus (see Note 6). Income distributions are based on the Fund's pro-rata share of total units issued by the pools.
- ii) Realized gains and losses on disposal of pool units are recorded in the Fund's accounts and included in income on the statement of operations and accumulated surplus. Realized gains and losses on disposal of pool units are determined on an average cost basis.
- iii) Investment income is recorded on an accrual basis. Investment income is accrued when there is reasonable assurance as to its measurement and collectability.

**c) INVESTMENT EXPENSES**

- i) Investment expenses include all amounts incurred by the Fund to earn investment income (see Note 7). Investment expenses are recorded on an accrual basis. Transaction costs are expensed as they are incurred.
- ii) Other expenses related to the direct administration of the Fund are charged to the Fund on an accrual basis.

**d) REMEASUREMENT GAINS AND LOSSES**

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

## e) MEASUREMENT UNCERTAINTY

Measurement uncertainty exists in the fair values reported for certain investments such as private equities, infrastructure, private debt and loans, private real estate, hedge funds, renewable resources, and other investments where no readily available market prices exist. The fair values of these investments are based on estimates. Estimated fair values may not reflect amounts that could be recognized upon immediate sale, or amounts that ultimately may be recognized. Accordingly, the estimated fair values may differ significantly from the value that would have been used had readily available market prices existed for these investments (see Note 3).

## f) TRANSFERS TO THE GENERAL REVENUE FUND (GRF)

In 2022-23, Section 8 of the Act was amended, eliminating the requirement for annual net income to be transferred out of the Fund to the GRF. Transfer of income from the Fund, less amounts retained for inflation proofing (see Note 5 (b)), will require approval from Treasury Board. Such transfers, should they be approved, must be completed by the end of the next fiscal year end.

## NOTE 3 INVESTMENTS (in millions)

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

Asset class	Fair Value Hierarchy <sup>(a)</sup>		2023	2022
	Level 2	Level 3		
<b>Interest-bearing securities</b>				
Deposits and short-term securities	\$ 113	\$ -	\$ 113	\$ 95
Bonds, mortgages and private debt	2,118	1,766	3,884	3,591
	2,231	1,766	3,997	3,686
<b>Equities</b>				
Canadian	1,619	-	1,619	1,784
Global developed	5,104	233	5,337	5,695
Emerging markets	671	-	671	709
Private	-	1,818	1,818	1,866
	7,394	2,051	9,445	10,054
<b>Inflation sensitive</b>				
Real estate	-	3,920	3,920	3,823
Infrastructure	-	2,375	2,375	1,832
Renewable resources	-	666	666	490
	-	6,961	6,961	6,145
<b>Strategic, tactical and currency investments *</b>	8	63	71	77
<b>Total Fair Value of Investments</b>	\$ 9,633	\$ 10,841	\$ 20,474	\$ 19,962

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

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

- **Level 1** - fair value is based on quoted prices in an active market. Although the pools may ultimately hold publicly traded listed equity investments, the pool units themselves are not listed in an active market and therefore cannot be classified as Level 1 for fair value hierarchy purposes. Pool units classified by the Fund as Level 2 may contain investments that might otherwise be classified as Level 1.
- **Level 2** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes pool units that hold public equities, debt securities and derivative contracts totalling \$9,633 (2022: \$10,311).
- **Level 3** - fair value is estimated using inputs based on non-observable market data. This level includes pool units that hold private mortgages, hedge funds, private equities and all inflation sensitive investments totalling \$10,841 (2022: \$9,651).

**Reconciliation of Level 3 Investments**

	2023	2022
Balance, beginning of year	\$ 9,651	\$ 8,897
Realized losses (gains)	63	(200)
Unrealized gains	392	664
Purchases of Level 3 pooled fund units	1,220	1,522
Sale of Level 3 pooled fund units	(485)	(1,232)
<b>Balance, end of year</b>	<b>\$ 10,841</b>	<b>\$ 9,651</b>

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

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

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

- ***Inflation sensitive investments:*** The estimated fair value of private real estate investments is reported at the most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and discounted cash flows. The fair value of renewable resources investments is appraised annually by independent third party evaluators. Infrastructure investments are valued similar to private equity investments.
- ***Strategic, tactical and currency investments:*** The estimated fair value of infrastructure investments held in emerging market countries are valued similar to private equities. For tactical asset allocations, investments in derivative contracts provides overweight or underweight exposure to global equity and bond markets, including emerging markets. Currency investments consist of directly held currency forward and spot contracts.
- ***Foreign currency:*** Foreign currency transactions in pools are translated into Canadian dollars using average rates of exchange. At year-end, the fair value of investments in other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rates.
- ***Derivative contracts:*** The carrying value of derivative contracts in a favourable and unfavourable position is recorded at fair value and is included in the fair value of the pools (see Note 4g). The estimated fair value of equity and bond index swaps is based on changes in the appropriate market-based index net of accrued floating rate interest. Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates. Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities. Forward foreign exchange contracts are valued based on differences between contractual foreign exchange rates and foreign exchange forward rates. Future contracts are valued based on quoted market prices. Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swap. Warrants and rights are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

### c) Liability Exposure

The Fund is indirectly exposed to liabilities held within the pools, the carrying value of which is a component in the determination of net fair value of investments within the pools. These liabilities are used primarily for general liquidity, risk management and active management purposes and include but are not limited to mortgages, lines of credit, derivative counterparty liabilities and repurchase agreements.

Repurchase agreements are short-term agreements to sell securities held in the fund in order to buy them back at a slightly higher price at a later time. The proceeds from the sale may be used to purchase other fixed income securities. The party selling the repurchase agreement is effectively borrowing, and the other party is lending. The lender is credited the implicit interest in the yield and price difference between the securities sold to be repurchased and the securities acquired from the sale proceeds. The securities sold under repurchase agreements are accounted for as collateralized form of borrowing. The Fund's exposure to repurchase agreement liabilities at March 31, 2023, was approximately \$1,000 (2022: \$972).



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 President of Treasury Board and Minister of 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, a rebalancing policy with target ranges on each asset class, diversification within each asset class, quality constraints on credit instruments. Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 4b).

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

Asset Class	Target Asset Policy Mix	Long Term Policy	Actual Asset Mix			
			2023		2022	
Interest-bearing securities	15 - 45%	20%	\$ 3,997	19.5%	\$ 3,686	18.4%
Equities	35 - 70%	47.5%	9,445	46.2%	10,054	50.4%
Inflation sensitive	15 - 40%	32.5%	6,961	34.0%	6,145	30.8%
Strategic, tactical and currency investments	(a)		71	0.3%	77	0.4%
		100.0%	\$20,474	100.0%	\$19,962	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 exposed to various risks associated with debt securities held in the pools managed by AIMCo. Counterparty default risk is the risk of loss arising from the failure of an issuer to fully honour its financial obligations. Downgrade risk can generate losses when issuers are downgraded by credit rating agencies, leading to a fall in the fair value of the debt obligations. Credit spread risk is the potential for changes in present value of an asset due to an increase in the credit spread of the debt security. Credit spreads may increase due to concerns with the individual issue or with the broader credit market, decreasing the present value of the security. If credit spreads widened by 1%, and all other variables are held constant, the potential loss in fair value to the Fund would be approximately 0.7% of total investments (2022: 0.8%).

The credit quality of financial assets is generally assessed by reference to external credit ratings. The credit rating of a debt security may be impacted by the overall credit rating of the counterparty, the seniority of the debt issue, bond covenants, maturity distribution and other factors. The majority of investments in debt securities have credit ratings considered to be investment grade.



Unrated debt securities consist primarily of mortgages and private debt and loan placements.

The table below summarizes the Fund's investment in debt securities by credit rating at March 31, 2023:

Credit rating	2023	2022
Investment Grade (AAA to BBB-)	62.9%	65.6%
Speculative Grade (BB+ or lower)	2.4%	2.3%
Unrated	34.7%	32.1%
	100.0%	100.0%

ii) Counterparty credit 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 4g). AIMCo is responsible for selecting and monitoring derivative counterparties on behalf of the Fund. AIMCo monitors counterparty risk exposures and actively seeks to mitigate counterparty risk by requiring that counterparties collateralize mark-to-market gains for the Fund. Provisions are in place to allow for termination of the contract should there be a material downgrade in a counterparty's credit rating. The exposure to credit risk on derivatives is reduced by entering into master netting agreements and collateral agreements with counterparties. To the extent that any unfavourable contracts with the counterparty are not settled, they reduce the Fund's net exposure in respect of favourable contracts with the same counterparty.

iii) Security lending risk

To generate additional income, the pools participate in a securities-lending program. Under this program, the custodian may lend investments held in the pools to eligible third parties for short periods. At March 31, 2023, the Fund's share of securities loaned under this program is \$201 (2022: \$300) and collateral held totals \$214 (2022: \$321). Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, high quality bonds, other investments or bankers' acceptances and bankers' deposit notes. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

**b) Foreign currency risk**

The Fund is exposed to foreign currency risk associated with the underlying securities held in the pools that are denominated in currencies other than the Canadian dollar. Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fair value of investments denominated in foreign currencies is translated into Canadian dollars using the reporting date exchange rate. As a result, fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect on the fair value of investments. Approximately 37% (2022: 38%) of the Fund's investments, or \$7,501 (2022: \$7,531), are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar, 20% (2022: 23%) and the Euro, 5% (2022: 5%).

If the value of the Canadian dollar increased by 10% against all other currencies, and all other variables are held constant, the potential loss in fair value to the Fund would be approximately 3.7% of total investments (2022: 3.8%).

The following table summarizes the Fund's exposure to foreign currency investments held in the pools at March 31, 2023:

Currency <sup>(a)</sup>	2023		2022	
	Fair Value	Sensitivity	Fair Value	Sensitivity
U.S. dollar	\$ 4,185	\$ (419)	\$ 4,600	\$ (460)
Euro	1,005	(101)	915	(92)
British pound sterling	713	(71)	689	(69)
Japanese yen	363	(36)	364	(36)
Hong Kong dollar	212	(21)	135	(13)
Other foreign currency	1,023	(102)	828	(83)
<b>Total foreign currency investments</b>	<b>\$ 7,501</b>	<b>\$ (750)</b>	<b>\$ 7,531</b>	<b>\$ (753)</b>

<sup>(a)</sup> Information on specific currencies is disclosed when the current year fair value is greater than 1% of the Fund's net assets.

#### c) Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Fund is exposed to interest rate risk associated with the underlying interest-bearing securities held in the pools managed by AIMCo. In general, the fair value of bonds and mortgages are sensitive to changes in the level of interest rates, which will impact returns if the securities are sold prior to maturity. A rise in interest rates will typically mean a drop in fair value (and vice versa), 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 0.9% of total investments (2022: 1.0%).

#### d) Price risk

Price risk is the risk that one or more of the markets where a product invests will decline in value. The value of the product may decline due to changes in general market conditions, economic trends or due to factors that affect a particular company or group of companies. Price risk is influenced by the geopolitical environment, economic conditions and changes in the regulatory environment. Both products and their benchmarks are impacted by price risk.

The Fund is exposed to price risk associated with the underlying equity investments held in the pools managed by AIMCo. Price risk is managed through diversification of asset class allocations and security selection within equity products. If equity market indices declined by 10%, and all other variables are held constant, the potential loss in fair value to the Fund would be approximately 5.3% of total investments (2022: 5.1%).

#### e) Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements of the Fund are met through income generated from investments, and by investing in units of pools that hold publicly traded liquid assets traded in an active market that are easily sold and converted to cash. Units in pools that hold private investments like real estate, renewable resources, infrastructure and private equities are less easily converted to cash since the underlying securities are illiquid because they take more time to sell. The Fund's main liabilities include payables related to purchase of pool units and those liabilities outlined in Note 3 c).

Liquidity risk is monitored by AIMCo using a Stressed Liquidity Coverage Ratio (SLCR) measure, which considers the ratio of liquidity supply to liquidity demand in an extreme liquidity scenario (defined as the 3-month period during the Global Financial Crisis immediately following the collapse of Lehman Brothers). An SLCR greater than 100% means that all liquidity demand under the stress scenario can be met, whereas an SLCR less than 100% means that liquidity demands under the stress scenario cannot be met.

#### f) Total portfolio risk

Investment risk is managed on a total portfolio basis and monitored daily by AIMCo. A 1-in-20 year downside Value-at-Risk (VaR) measure is used for the overall portfolio, supported by an Expected Tail Loss (ETL) measure to capture the risk of more extreme tail losses. In addition, active management risk (i.e. the risk of underperformance relative to the total portfolio benchmark) is monitored using a 1-in-20 downside Active Value-at-Risk (aVaR) measure. The SIP&G sets out the limits within which these measures should operate.

#### g) Use of Derivative Financial Instruments in Pooled Investment Funds

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

By counterparty	Number of counterparties	Fund's Indirect Share	
		2023	2022
Contracts in net favourable position (current credit exposure)	149	\$ 87	\$ 291
Contracts in net unfavourable position	12	(86)	(111)
<b>Net fair value of derivative contracts</b>	<b>161</b>	<b>\$ 1</b>	<b>\$ 180</b>

- Current credit exposure: The current credit exposure is limited to the amount of loss that would occur if all counterparties to contracts in a net favourable position totaling \$87 (2022: \$291) were to default at once.
- Settlements: Derivative settlements, in the forms of cash or securities, are made in accordance with the respective derivative contracts; Mark-to-market movements on these derivatives result in the regular pledging and receiving of collateral.
- 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	
	2023	2022
Equity-based derivatives	\$ 79	\$ 93
Foreign currency derivatives	(106)	59
Interest rate derivatives	26	23
Credit risk derivatives	2	5
<b>Net fair value of derivative contracts</b>	<b>\$ 1</b>	<b>\$ 180</b>

- Equity-based derivatives include equity swaps. Equity swaps are contracts where one counterparty agrees to pay or receive from the other, cash flows based on changes in the value of an equity index, a basket of stocks, or a single stock in exchange for a return based on a fixed or floating interest rate or the return on another instrument. Rights, warrants, futures and options are also included as equity-based derivatives.
- Foreign currency derivatives include contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

- iii) Interest rate derivatives exchange interest rate cash flows (fixed to floating or floating to fixed) based on a notional amount. Interest rate derivatives primarily include interest rate swaps and cross currency interest rate swaps, futures contracts and options.
- iv) Credit risk derivatives include credit default swaps allowing the pools to buy and sell protection on credit risk inherent in a bond. A premium is paid or received, based on a notional amount in exchange for a contingent payment should a defined credit event occur with respect to the underlying security
- v) At March 31, 2023, deposits in futures contracts margin accounts totaled \$59 (2022: \$84). Cash and non-cash collateral for derivative contracts pledged and received, respectively, totaled \$193 (2022: \$129) and \$nil (2022: \$nil).
- vi) All derivative products are subject to AIMCo's internal governance.

## 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	
	2023	2022
<b>Accumulated net income</b>	<b>\$ 48,012</b>	<b>\$ 48,126</b>
<b>Transfers to the Fund</b>		
Resource Revenue (1976-1987)	12,049	12,049
Access to the Future <sup>(a)</sup>	1,000	1,000
Voted Payments <sup>(e)</sup>	3,671	2,918
	16,720	15,967
<b>Amounts retained in (transferred from) the Fund</b>		
Section 8 transfers <sup>(b)</sup>		
Income	(47,084)	(48,331)
Amount Retained in the Fund	5,073	5,073
	(42,011)	(43,258)
Capital Expenditures (1976-1995) <sup>(c)</sup>	(3,486)	(3,486)
Other Statutory Transfers <sup>(d)</sup>	(255)	(255)
	(45,752)	(46,999)
<b>Accumulated surplus from operations</b>	<b>18,980</b>	<b>17,094</b>
<b>Accumulated remeasurement gains</b>	<b>2,247</b>	<b>1,621</b>
<b>Carrying value of net financial assets</b>	<b>\$ 21,227</b>	<b>\$ 18,715</b>

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

(b) During the year, Bill 10 (*Financial Statutes Amendment Act, 2023*) amended Section 8 of the Act to require Treasury Board approval for any income transfers, after inflation proofing, from the Fund to the GRF beginning in 2021-22. The income transfer amount of \$1,247 previously accrued for 2021-22 was recovered on the new legislation taking effect.

Previously Section 8 of the Act stated that the net income of the Heritage Fund, less any amount retained in the Fund, in accordance with section 11 of the Act, must be transferred to the GRF in a manner determined by the President of Treasury Board and Minister of Finance.

The amount for inflation proofing is determined by multiplying the accumulated operating surplus of the Fund from the prior fiscal year end by the percentage increase in the Alberta Consumer Price Index (Alberta CPI) for the year, calculated as the percentage increase in the average monthly Alberta CPI for the two previous fiscal years. In accordance with section 11(2), if the Alberta CPI is a negative number, that negative number shall be treated as if it were zero. The estimated Alberta CPI increase for the year was 6.0% (2022: 4.3%).

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

(d) Transfers of \$200 to the Alberta Heritage Scholarship Fund, \$3 to the Agriculture and Food Innovation Account, and \$52 to the Access to the Future Fund were made from the Fund in 2015.

(e) In accordance with Bill 12, *Appropriation (Supplementary Supply) Act 2023*, a contribution of \$753 to the Fund was authorized to be paid from the GRF in 2022-23.

**NOTE 6** INVESTMENT INCOME (in millions)

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

	2023	2022
<b>Interest-bearing securities</b>	\$ 14	\$ 110
<b>Equities</b>		
Canadian	68	327
Global	(279)	701
Private	88	557
	(123)	1,585
<b>Inflation sensitive</b>		
Real estate	98	237
Infrastructure	(7)	136
Renewable resources	58	49
	149	422
<b>Strategic, tactical and currency investments</b>	(20)	11
	\$ 20	\$ 2,128

The investment income includes realized gains and losses from disposal of pool units totalling \$(235) (2022: \$255) and from directly held foreign exchange contracts totalling \$(5) (2022: \$1). Income and loss distributions from the pools total \$260 (2022: \$1,872).

Income earned in pooled investment funds is distributed to the Fund daily based on the Fund's pro rata share of units issued by the pool. Income earned by the pools is determined on an accrual basis and includes interest, dividends, security lending income, realized gains and losses on sale of securities determined on an average cost basis, income and expense on derivative contracts and writedowns of securities held in pools which are indicative of a loss in value that is other than temporary. Other-than-temporary losses included in investment income in the statement of operations and accumulated surplus were \$151 (2022: \$79). Because the investments are accounted for on a fair value basis, the recording of other-than-temporary losses through the statement of operations does not affect the performance of the fund.

**NOTE 7** INVESTMENT EXPENSES (in millions)

	2023	2022
Amount charged by AIMCo for: <sup>(a)</sup>		
Investment costs	\$ 97	\$ 86
Performance based fees	37	90
<b>Total investment expenses</b>	\$ 134	\$ 176
(Decrease) increase in expenses	(23.9%)	5.4%
Increase in average investments under management	5.0%	9.2%
Increase in value of investments attributed to AIMCo	1.2%	5.2%
Investment expense as a percent of dollar invested	0.7%	0.9%

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

Includes \$114 thousand (2022: \$114 thousand) charged to the Fund by Alberta Treasury Board and Finance for investment accounting and reporting services.

**NOTE 8** INVESTMENT PERFORMANCE (net of investment expenses)

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

Time-weighted rates of return, at fair value <sup>(a)</sup>	Average Annualized Return			
	2023	2022	5 years <sup>(d)</sup>	10 years
Net return on investments <sup>(b)</sup>	2.6%	11.8%	6.4%	8.4%
Policy benchmark return <sup>(b)</sup>	1.4%	6.6%	6.0%	7.7%
Value added by AIMCo <sup>(c)</sup>	1.2%	5.2%	0.4%	0.7%

- (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.
- (c) In the SIP&G, the Ministry of Treasury Board and Finance expects that the investments held by the Fund will return 1% above the policy benchmark over a rolling five-year period.
- (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, based on the Canadian Consumer Price Index. At the reporting date, the CPI + 450 annualized, five-year rolling average, was 6.68%.

**NOTE 9** COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2023 presentation.

**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 year and are provided to the Standing Committee on the Alberta Heritage Savings Trust Fund in accordance with section 15 and 16 of the Act. Unaudited interim financial statements for the first three quarters of each fiscal year are made available to the public by the President of Treasury Board and Minister of Finance within two months following each quarter-end. Annual audited financial statements of the Fund are included in the annual report of the Ministry of Treasury Board and Finance.