Alberta Heritage Savings Trust Fund

ANNUAL REPORT 2014–2015

Alberta

Heritage Fund

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HIGHLIGHTS

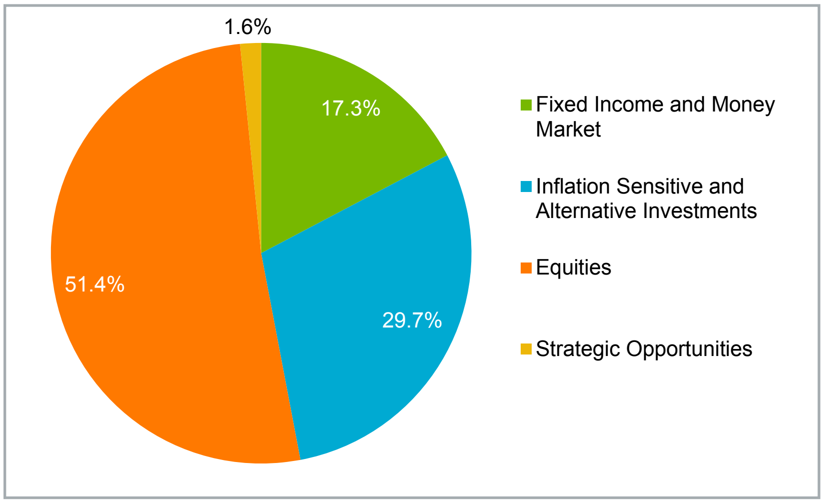
12.5% (net of fees)

RATE OF RETURN

$17.9 billion

FAIR VALUE OF NET ASSETS

Asset Mix as at March 31, 2015



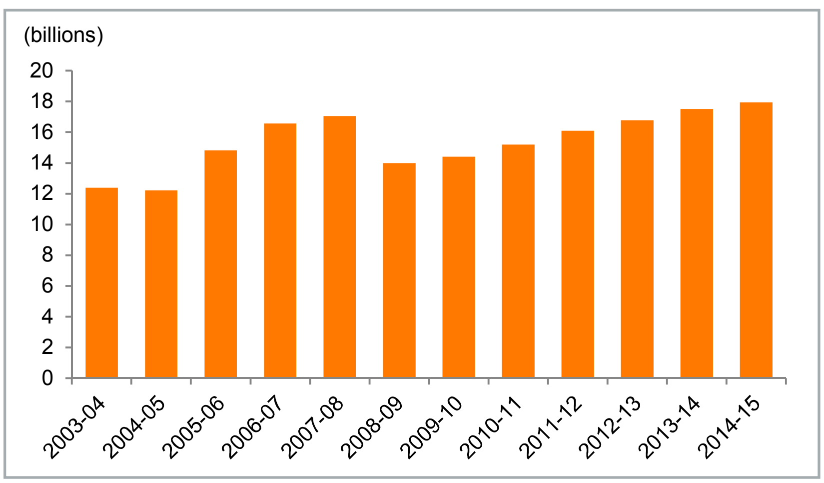
8.0% net of fees

10 YEAR
RATE OF RETURN

$1,468 million

INVESTMENT INCOME TRANSFERRED TO GENERAL REVENUES

Market Value at Fiscal Year End



$210 million

INVESTMENT INCOME RETAINED FOR INFLATION-PROOFING

$38.2 billion

CUMULATIVE INCOME TRANSFERS SINCE INCEPTION

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MESSAGE FROM THE PRESIDENT OF TREASURY BOARD AND MINISTER OF FINANCE

As Alberta's long-term savings fund, the Alberta Heritage Savings Trust Fund has been the centrepiece of discussions about savings in this province since the fund's inception in 1976.

The Heritage Fund had a strong year in 2014-15, generating a 12.5 per cent return and earning more than $1.6 billion. Net income was higher than expected, due mainly to stronger-than-expected performance in the equity markets and a weakening Canadian dollar, which bolstered the return on the Fund's international investments. At March 31, 2015, the Fund's assets had fair market value of $17.9 billion. Over the past five years, the fund has managed an 11.7 per cent return on investment and a 10-year average return of 8 per cent.

I look forward in the coming year to learning more about the fund and working to ensure its continued success in the future.

Honourable Joe Ceci

[Original signed by Joe Ceci]

President of Treasury Board and Minister of Finance

ABOUT THE HERITAGE FUND

1976 Inception of Fund

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

1987 Natural resource revenue transfers halted

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

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

WHAT IS THE HERITAGE FUND?

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

WHEN WAS THE HERITAGE FUND ESTABLISHED?

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

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

WHAT HAPPENS TO THE INCOME EARNED BY THE HERITAGE FUND?

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

In 2014-15, the Heritage Fund earned net income of $1,678 million in income, $210 million of which was retained in the Fund for inflation proofing and $1,468 million was transferred to the General Revenue Fund.

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

2007
Government completes deposit of $1.0 billion for Access to the Future Fund. Government contributes an additional $1.0 billion from surplus for second year in a row

2013
Government announces new savings strategy and plans to retain income in the Fund.

2014
Record income of $2.3 billion

2015
$1.8 billion gross income

WHAT IS THE HERITAGE FUND WORTH TODAY?

The net financial assets of the Fund was $17.9 billion on March 31, 2015.

WHO IS RESPONSIBLE FOR THE HERITAGE FUND?

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

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

ARE THE HERITAGE FUND INVESTMENTS SECURE?

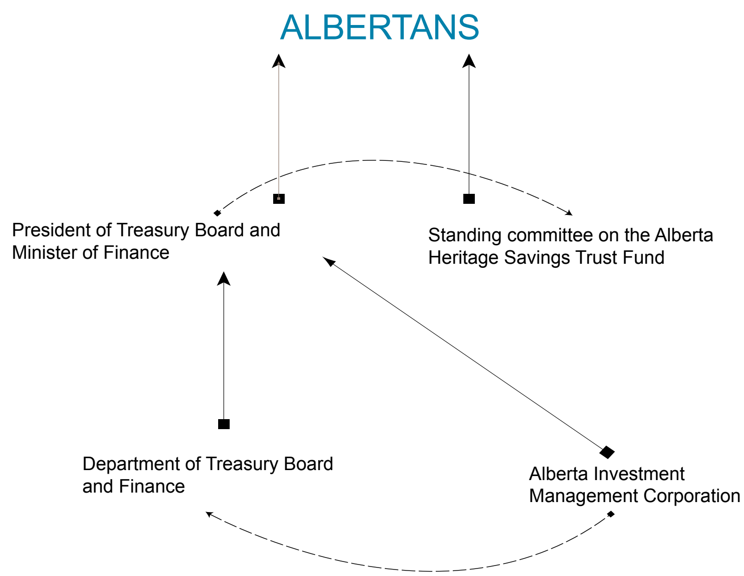
The key to sustainable investment performance is maintaining a diverse portfolio with a long-term focus, prudence, and investment discipline.

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

HERITAGE FUND GOVERNANCE

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

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



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

The Standing Committee on the Alberta Heritage Savings Trust Fund is an all-party committee of the Legislative Assembly members who are responsible under the Act for reviewing the performance of the Heritage Fund at the end of each fiscal year and reporting to the Legislature as to whether the mission of the Fund is being fulfilled. The Committee is also responsible for approving the annual report of the Fund. The Act requires that the Committee hold an annual public meeting. The most recent annual meeting was held in October 2014 in Edmonton. This meeting was televised and live-streamed over the internet with a live-chat allowing a greater number of Albertans to participate.

PORTFOLIO CONSTRUCTION

The Fund's investment goal is to earn a long-term rate of return of 4.5 per cent above the Canadian rate of inflation, as measured by the Consumer Price Index. To achieve the return objective, the Heritage Fund is invested in a globally diversified asset portfolio. Diversification is the key tool that mitigates risk in the portfolio. The Fund holds different assets that should react differently in a wide variety of market environments. In simple terms, the Fund does not put all of its eggs in one basket.

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

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

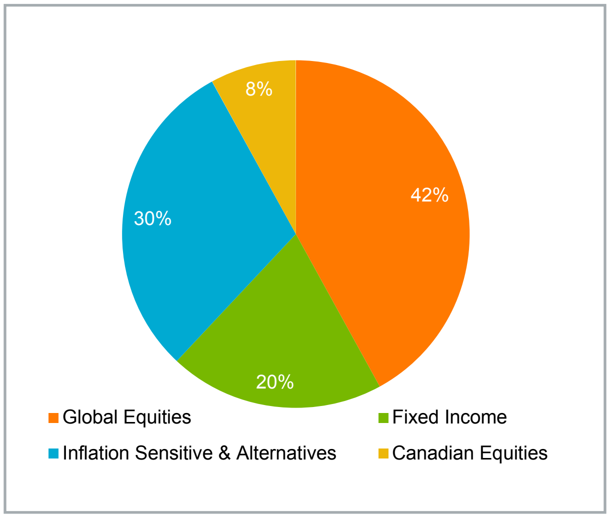
Some key highlights of the policy portfolio are:

- The Heritage Fund has target allocations to three broad categories: equities, fixed income, and inflation-sensitive and alternatives. The Fund also has the ability to invest in special opportunities that do not fit the parameters of the three broad categories.

- Global focus: Canada represents approximately three per cent of the world's capital markets. While some of the best companies in the global economy are Canadian, there are also attractive opportunities elsewhere in the world. Investing in many different countries and currencies also provides diversification benefits.

- Long-term assets: Heritage Fund policy calls for significant allocation to inflation-sensitive and alternative investments, such as allocations to real estate and infrastructure. The Fund has a long-term horizon and can afford to hold longer-lived and illiquid assets. Real estate and infrastructure generally offer stable long-term cash flows and some measure of inflation protection that are important for the Fund.

Long-Term Target Policy Asset Mix



THE 2014-15 YEAR IN REVIEW

The past fiscal year saw a divergence of fortunes across the global economy. Economic recovery became entrenched in the US and UK, while the Eurozone and Japan continued to suffer from anemic growth and low inflation. The Indian economy showed strength, as other major emerging market economies weakened. Growth in China continued to moderate, while both Brazil and Russia fell into recession.

The US recovery appears to have solidified. Growth was strong with the exception of the first quarter when harsh winter conditions caused the economy to contract for the second year in a row. Over the course of fiscal year 2014-15, 3.1 million jobs were added, the most in 15 years, as the unemployment rate dropped 1.1 percentage points to 5.5 per cent. The improvement allowed the Federal Reserve, by November, to end the bond-buying program that began in 2012. Fed chair Janet Yellen said that if the economy continued to improve, the Fed will hike interest rates before the end of 2015.

Much of the global economy did not fare as well. The European economy showed little improvement, with weak growth, chronic unemployment and falling inflation. Moreover, the perpetual crisis in Greece continued to threaten financial stability. To combat this weakness, the European Central Bank announced an asset purchase program similar in size and design to that of the Federal Reserve program that ended in 2014. As in the EU, the Japanese economy struggled to grow. These problems were exacerbated last year by a three percentage point sales tax hike causing real GDP to contract in the second and third quarters.

In the past, China could be counted on to buoy global growth, but it too has slowed, in part because of measures introduced last year to restrain credit in its frothy real estate markets. Russia's economy was hammered by low oil prices and ongoing effects from the Ukraine crisis that led to sanctions and increased uncertainty. Brazil is suffering from stagflation, with negative GDP growth and rising inflation. India was the lone bright spot among major emerging markets, with growth outpacing China at the end of 2014.

Weak global demand and increasing oil supply caused the price of oil to fall by half over the fiscal year. Higher-than-expected production in war-torn Iraq and Libya added to a surge in supply from North America, where production increased 50 per cent in just five years. The bottom really fell out of the market in November when OPEC declined to cut production to support prices. Prices rebounded somewhat since March, but one and two-year forward prices remained anchored at slightly over $60 US/bbl, as additional supply from US shale-oil plays stand ready to come online should prices drift much higher. This prevented OPEC from tightening production quotas when they met in June, as the loss in market share would not justify the higher price.

Economic growth in Canada was strong to start the fiscal year, with GDP growth over 3 per cent in the second and third quarters of 2014. Growth slowed as low oil prices started to affect the economy. Real GDP contracted at an annual rate of 0.6 per cent in the first quarter of 2015, as oil and gas investment fell substantially. To head off the negative effects of low oil prices, the Bank of Canada unexpectedly cut interest rates in January. The Canadian dollar depreciated by almost ten per cent against major trading partners over the course of the fiscal year.

Global equity markets continued to see robust returns, with the S&P 500 up 26.2 per cent in Canadian dollar terms over the fiscal year. The same was not true for Canadian markets, with the TSX up just 3.6 per cent as corporations in the energy sector suffered from falling oil prices. Bond yields continued to defy expectations, with the yield on five-year Government of Canada bonds closing out the fiscal year at just 0.77 per cent, and ten-year yields at 1.04 per cent.

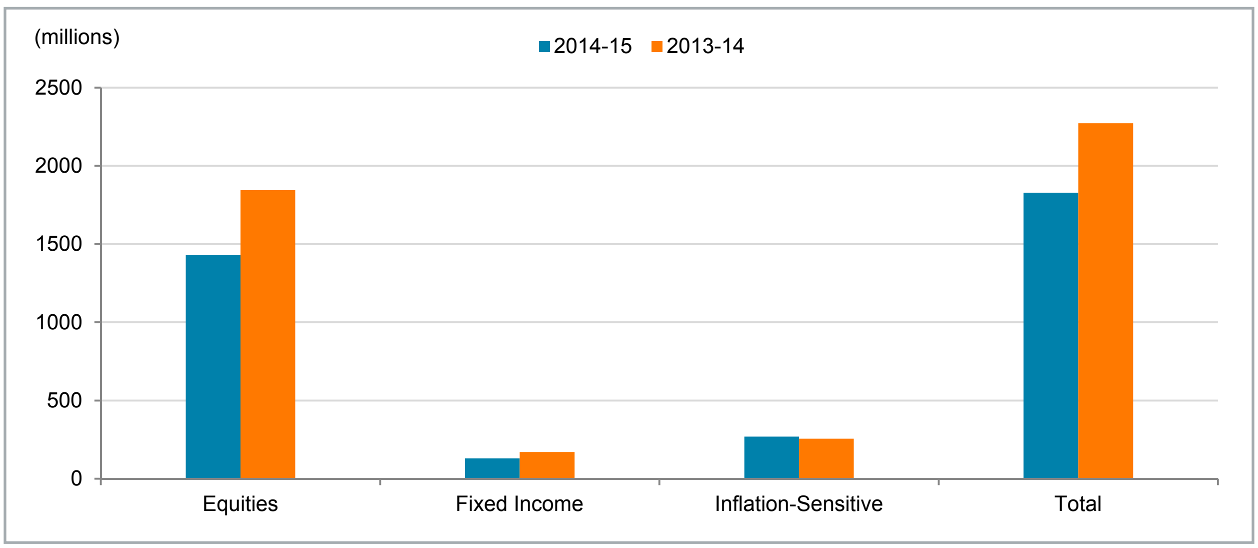
INVESTMENT INCOME

The Heritage Fund earned a gross investment income of $1,825 million for the year ended March 31, 2015, a decrease of $447 million from the previous year. Expenses for the year were $147 million, and the net investment income was $1,678 million. The amount retained for inflation-proofing was $210 million. The remainder $1,468 million was transferred to the province's General Revenue Fund.

The actual net income for the year was $225 million more than the income of $1,453 million projected in *Budget 2014*. The difference was primarily due to stronger than expected equity markets during the fiscal year and weakening Canadian Dollar that fell to $0.79 USD at March 31, 2015, boosting the return on the Fund's foreign assets.

Equities were the primary contributor to earnings during the year, grossing $1,429 million or 78 per cent of total income earned by the Heritage Fund. This amount was slightly less than the $1,842 that was earned from equities in 2013-14. Fixed income earned $130 million in 2014-15, declining from the $171 million in the previous year. Fewer assets invested in fixed income and lower interest rates contributed to the decline in interest income. Inflation-sensitive and alternatives investments earned $269 million compared to $256 million in 2013-14.

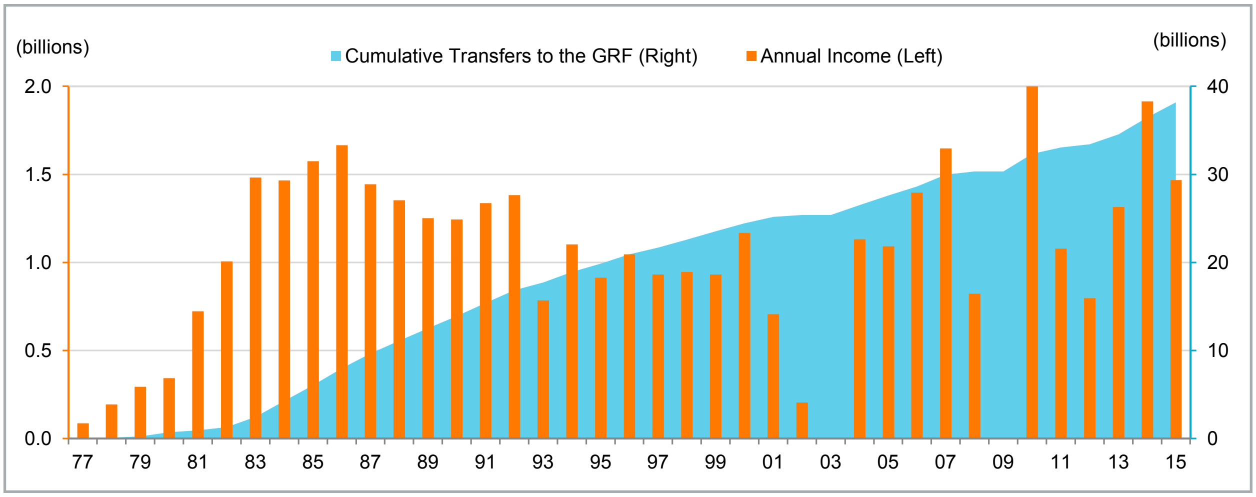
Investment Income by Asset Class



INCOME TRANSFER AND INFLATION-PROOFING

After expenses of $147 million and inflation-proofing of $210 million, the remaining $1,468 million of earned income was transferred to the General Revenue Fund. The Fund was established in 1976 and since then it has earned $37.2 billion in income, of which $2.9 billion has been retained for inflation-proofing. An additional $3.5 billion from the Fund was made available from 1976 to 1995 to pay for capital projects in Alberta. In 2014-15, $200 million from the Heritage Fund was transferred to the Alberta Heritage Scholarship Fund, $3 million was transferred to the Department of Agriculture, and $52 million to the Access to the Future fund.

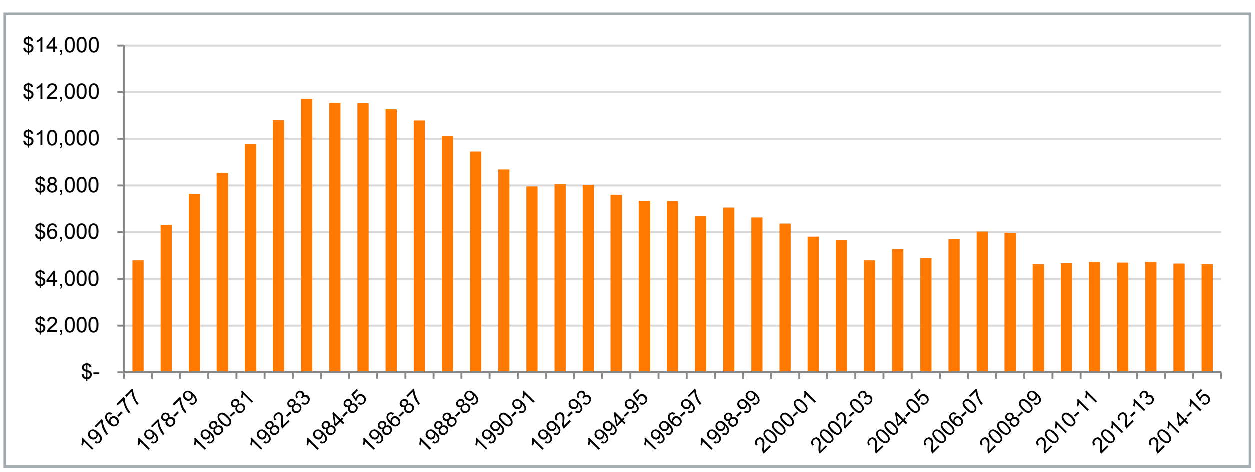
Income and Cumulative Transfer to GRF



Cumulative inflation since the Heritage Fund's inception has caused prices to increase four times from their 1976 level, meaning what cost $1 in 1976 now costs more than $4. The chart illustrates how inflation has decreased the value of the Fund and underscores the importance of inflation-proofing. The market value per capita, in real dollars, reached its peak in 1983 when the Fund was worth slightly more than $11,700 per capita in 2015 dollars. In 1987, deposits into the Fund were halted and then resumed in 2005 but the inflation-adjusted fair market value per capita value had fallen substantially. Since inflation-proofing resumed, combined with investment growth, the per capita value market value has stabilized and the market value per capita value on March 31, 2015 was $4,624 per Albertan.

Market Value Inflation Adjusted Per Capita

(2015 dollars)



INVESTMENT EXPENSES

The Heritage Fund investment expenses were $147 million for the year, which was $3 million less than the budget and $16 million less than the $163 million spent during the previous year. Fees stabilized as the Fund's policy asset mix approached full implementation. Fees are volatile as a large portion are performance fees that are variable and difficult to predict. Investment expenses in 2014–15 were 0.82 per cent compared to 0.94 per cent during the previous year.

Investment Expenses

(millions)	2015	2014
Total investment expenses	$147	$163
Average fair value of investments	$17,988	$17,340
Per cent of investments at average fair value	0.82%	0.94%

ASSET MIX

The Heritage Fund continues to increase its exposure to inflation sensitive and alternative investments. During the fiscal year the fund increased its percentage of assets in this class from 26.9 to 29.7. The Fund is almost at its long-term target of 30 per cent. Fixed income investments decreased from 18.8 per cent of the portfolio to 17.3 per cent and equities fell from 53.1 per cent to 51.4 per cent of the portfolio.

Strategic Opportunities are investments that do not fit in the traditional asset mix framework; these assets comprised 1.6 per cent of assets at March 31, 2015. According to the SIP&G these assets may comprise 2 per cent of the portfolio.

Asset Mix

	March 2015	March 2014	Policy Range
Fixed Income and Money Market (20%)	**17.3%**	**18.8%**	**15-45%**
Deposits and short-term	0.2%	0.2%	0-25%
Bonds and mortgages	17.1%	18.6%	10-35%
Long bonds	0.0%	0.0%	0-10%
Inflation-Sensitive and Alternative Investments (30%)	**29.7%**	**26.9%**	**15-40%**
Real estate	20.1%	18.4%	10-20%
Real return bonds	0.0%	0.0%	0-10%
Infrastructure	7.3%	6.3%	5-15%
Timberland	2.3%	2.2%	0-5%
Equities (50%)	**51.4%**	**53.1%**	**35-70%**
Public			
Canadian	8.2%	8.1%	5-15%
Global developed	32.3%	33.8%	20-65%
Emerging markets	3.7%	4.1%	0-10%
Frontier markets	0.0%	0.0%	0-5%
Private	7.2%	7.1%	0-10%
Strategic Opportunities	**1.6%**	**1.2%**	**0-2%**

INVESTMENT PERFORMANCE

The Fund is invested to maximize long-term investment returns. Over a five-year span, the Fund returned 11.7 per cent on an annualized basis, which is higher than the return on the policy benchmark of 11.2 per cent. Over a 10-year horizon, the Fund returned 8.0 per cent versus a policy benchmark return of 7.9 per cent. Over a 10-year horizon the Fund's return also beat its long-term target of 6.2 per cent (Canadian Consumer Price Index + 4.5 per cent).

The Heritage Fund net-of-fees return was 12.5 per cent during the 2014-15 fiscal year, while the policy benchmark return was 14.7 per cent. Gains in inflation-sensitive and alternative investments were counteracted by value lost in the fixed income and equity portfolios.

Total Fund Performance

(as at March 31, 2015)	**2014-15**	**2013-14**	**5 Year**	**10 Year**
Fund Rate of Return	12.5 %	16.0 %	11.7 %	8.0 %
Benchmark	14.7 %	16.0 %	11.2 %	7.9 %
Active Management	(2.2)%	0.0 %	0.5 %	0.1 %
Long Term Return Target - CPI + 4.5%	5.5 %	5.6 %	6.1 %	6.2 %
Active Management Target	1.0 %	1.0 %	1.0 %	0.9 %
Total Target Return	6.5 %	6.6 %	7.1 %	7.1 %

Asset Class Return versus Benchmark

(as at March 31, 2015)	**1 Year Return**	**1 Year Benchmark**	**5 Year Return**	**5 Year Benchmark**
Fixed Income	10.1%	10.3%	7.5%	6.0%
Inflation Sensitive and Alternative Investments	11.6%	10.6%	12.3%	11.6%
Real Estate	12.0%	7.9%	14.5%	12.0%
Infrastructure	13.0%	16.2%	7.7%	10.8%
Timberland	4.8%	16.2%	11.2%	10.3%
Equities	16.0%	18.7%	13.7 %	13.1 %
Canadian	7.9 %	6.9 %	9.0%	7.4%
Global (including Emerging Markets)	18.0%	21.0%	15.0 %	13.8 %
Private	15.2%	21.0%	11.3%	14.1%

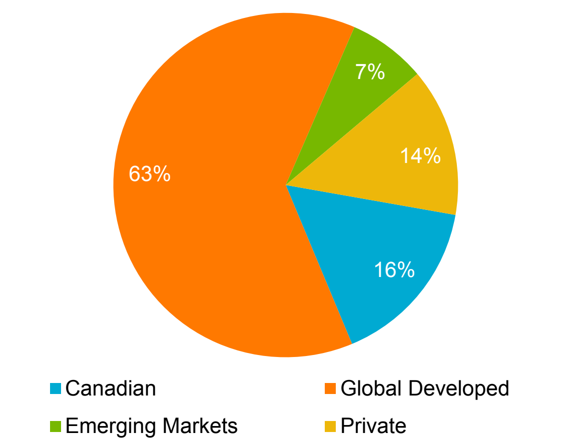
EQUITIES

The Fund invests in equities to provide long-term investment growth and income. The Fund had \$9.4 billion or 51.4 per cent of its assets in equity investments as at March 31, 2015. This is the same as the previous year, \$9.4 billion or 53.1 per cent. The equities portfolio in the Fund returned 16.0 per cent for the year ended March 31, 2015. The equity benchmark had a return of 18.7 per cent which was substantially better than the Fund's return.

Canadian Equity

The S&P/TSX Composite index returned 6.9 per cent for the year, substantially behind global equity markets. The Canadian stock market is heavily weighted in three main sectors: financial, energy and materials sectors. These three sectors constitute nearly two-thirds of the index. Canadian markets were hampered by poor returns in the energy sector that returned a negative 16.8 per cent, as the price of crude oil fell by half from the previous year. Other sectors, such as Consumer Staples, Health Care and Information Technology performed well, but their weighting in the market was not enough to overcome the drag cause by energy. The Heritage Fund had \$1.5 billion invested in Canadian equities, which was up slightly from the previous year. The Fund's Canadian equities portfolio assets returned 7.9 per cent for the year, beating its benchmark by 1.0 per cent.

Equities



Top 10 Canadian Equity Holdings

As at March 31, 2015

Holding	Market Value (millions)	per cent of Canadian Equity
Royal Bank of Canada	\$75.3	5.2%
Toronto Dominion Bank	\$65.3	4.6%
Canadian National Railway	\$61.9	4.3%
Valeant Pharmaceutical	\$51.3	3.6%
Bank of Nova Scotia	\$49.6	3.5%
Canadian Natural Resources	\$40.8	2.8%
Bank of Montreal	\$40.7	2.8%
Alimentation Couche Tard	\$36.3	2.5%
Suncor Energy	\$34.9	2.4%
Transcanada Corporation	\$34.2	2.4%
Total - Top 10 Holdings	\$490.4	34.2%

Global Equities

The performance of global equities for the Fund is benchmarked against the MSCI All Country World Index in Canadian dollars that returned 21.0 per cent for the year. The Fund's global equity portfolio returned 18.0 per cent for the fiscal year. At year end, global equities totaled $6.6 billion, down from $6.7 billion in the previous year. The primary driver for the robust global equity returns was a the 12.8 per cent decline in the Canadian dollar. As foreign currency denominated assets are converted back to Canadian dollars, they experience a gain when the dollar falls.

Approximately half of the global equity holdings are invested in the U.S. and half in Europe, Australasia, and the Far East. A portion of global equities is invested in structured equity products using index swaps and futures contracts that replicate exposure to global equity markets. Emerging market public equities make up 10.4 per cent of the global equity portfolio and include investments in economies that are in the early stages of development, have sufficient market size and liquidity, and have an investment climate that is receptive to foreign investors. China, Brazil, Korea, Taiwan and Russia make up about 66 per cent of the emerging markets.

Private Equity

Canadian and foreign private equity investment totaled $1.3 billion at year end, the same as the previous year. Private equity investments primarily include buyout investments such as expansion capital, acquisition financings, management buyouts, family succession, turnaround financings, project financings and leverage reductions. The private equity portfolio had a 15.2 per cent return that underperformed the MSCI ACWI (C$) by 5.8 per cent. Private equity is considered a replacement for public securities and uses a public market benchmark, so short-term underperformance or outperformance can occur if public markets move rapidly in one direction or another.

Top 10 Global Equity Holdings

As at March 31, 2015

Holding	Market Value (millions)	per cent of Global Equity
Apple Inc.	$106.6	2.5%
TMX Group Ltd.	$62.0	1.5%
Microsoft Corp.	$59.6	1.4%
Novartis	$52.2	1.2%
Danske Bank	$51.2	1.2%
Berkshire Hathaway [B]	$43.8	1.0%
ExxonMobil Corp.	$41.3	1.0%
JP Morgan Chase & Co.	$41.0	1.0%
Thyssen Krupp	$37.4	0.9%
Wells Fargo & Co.	$37.0	0.9%
Total - Top 10 Holdings	$532.1	12.6%

Private Equity Program Top 10 Holdings

As at March 31, 2015

Holding	Sector
Vue	Consumer Discretionary
Ladder Capital	Financials
Bonanza Creek	Financials
Milacron	Industrials
Chinook WOGH	Energy
Alegeus Technologies	Health Care
Klemke Mining Corporation	Industrials
Conversant	Telecommunication Services
Oak Point Energy Ltd.	Energy
CPI Card Group	Information Technology
Total - Top 10 Holdings	$493.8

FIXED INCOME

The fixed income investments in the Fund provide a safe and steady source of income for current funding priorities. Fixed income investments tend to offer lower risk and lower volatility than other investments and stabilize the portfolio returns. As at March 31, 2015, the Fund had $3.2 billion or 17.3 per cent invested in the fixed income portfolio, which was less than the previous year. The fixed income in the portfolio is primarily held in federal, provincial, municipal and corporate bonds. The Fund also has investments in private mortgages and private debt. During the year, overall fixed income portfolio earned 10.1 per cent, 0.2 per cent less than the benchmark of 10.3 per cent.

Bonds

The portfolio comprises high quality government and corporate bonds. The main bond portfolio is measured against the FTSE/TMX Universe Bond Index was valued at $1.9 billion at year end, down from $2.0 billion during the previous year. The bond portfolio returned 10.5 per cent for the year, beating the benchmark return of 10.3 per cent. The portfolio had an overweight position in high quality short-term corporate credit that performed well during the year. The portfolio was boosted by the drop in interest rates that increased the value of the portfolio's holdings.

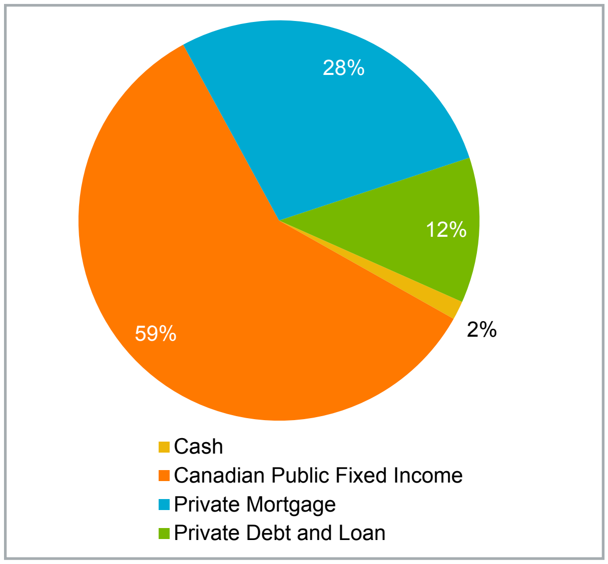
Private Mortgages

The private mortgage investments are diversified geographically and by property type. The Fund's private mortgage investments augmented the fixed income portfolio by offering a diversified source of yield enhancement. The Fund had investments of $912 million at year end, a decrease of $74 million over last year's value. The private mortgage investments returned 10.3 per cent, which was the same as the benchmarks return.

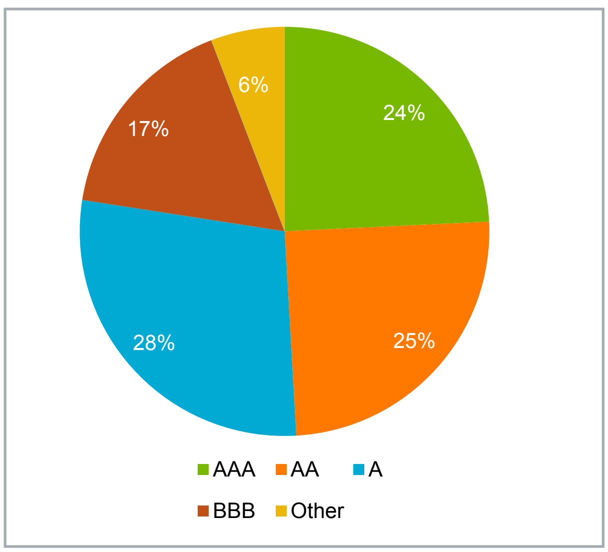
Private Debt and Loan

The Heritage Fund held $381 million of the private debt and loan assets as at March 31, 2015. The return for private debt and loan for the year was 6.9 per cent. The private debt and loan consists of specialty loans and financing for corporations that don't meet the requirements of traditional financing structures.

Fixed Income



Ratings



Money Market

Money market investments primarily include short-term, interest-bearing securities issued by banks, various levels of government and major corporations. The Fund's money market investments made up $49 million of the portfolio or 0.3 per cent of the total Fund. The Fund policy does not indicate a minimum amount be kept in cash or money market, but a small cash balance is inevitable because of the daily flow of money. Money market investments in the Fund earned 1.9 per cent for the year.

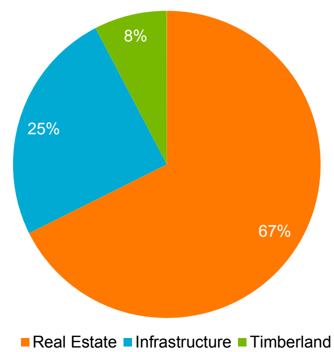
INFLATION-SENSITIVE AND ALTERNATIVE INVESTMENTS

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

At March 31, 2015, inflation-sensitive investments made up 29.7 per cent of the total investments, up from 26.9 per cent in the previous year. The long-term policy of the Fund is to have these assets account for 30 per cent of the portfolio.

Total inflation-sensitive investments are $5.4 billion, an increase of $600 million over the previous year. The increase includes some gains in the value of investments made in previous years and additional investments made during 2014-15. The overall combined return for inflation-sensitive and alternative investments was 11.6 per cent, 1.0 per cent greater than the benchmark's return of 10.6 per cent.

Inflation-Sensitive



Real Estate

At year end, the Heritage Fund's investment in real estate pools was $3.7 billion, up $425 million from $3.3 billion at the end of the previous year. Real estate holdings were predominantly Canadian with $2.5 billion invested, which is 69 per cent of the real estate portfolio. The portfolio's foreign real estate has $1.2 billion invested, which is 31 per cent of the real estate portfolio. This is up from 23 per cent since the end of the previous year, mostly due to increased capital allocated to foreign real estate. Real estate has been a solid performer for the Fund over the past few years and that trend continued with real estate returning 12.0 per cent for the year. The return outpaced its benchmark and returned 7.9 per cent.

Top 10 Real Estate Program Holdings

As at March 31, 2015

Property	Sector	City
Yorkdale Shopping Centre	Retail	Toronto
Square One Shopping Centre	Retail	Mississauga
Scarborough Town Centre	Retail	Toronto
Eighth Avenue Place	Office	Calgary
Bow Valley Square	Office	Calgary
TD Square	Office	Calgary
TD Canada Trust Tower	Office	Calgary
Fifth Avenue Place	Office	Calgary
Stonegate Landing Development	Industrial	Calgary
Sunlife Financial Centre	Office	Ottawa
Total Top 10 Holdings (millions)		**$1,524.0**

Timberlands

Investments in Canadian and foreign timberland totaled $417 million, up $30 million from the previous year. One-third of the timberland portfolio is in Canada, the largest investment being an ownership interest in timber and related land located in British Columbia. The remaining two-thirds of the timberland investments are outside Canada, primarily in Australia. The Timberland portfolio returned 4.8 per cent versus its benchmark return of 16.2 per cent. Timberland is benchmarked against the S&P Global Infrastructure Index (hedged C$), which is a benchmark of publicly traded infrastructure companies. There can be large benchmark performance differences in the assets because public markets are valued daily and can move more rapidly than private investments.

Timberlands Program Holdings

As at March 31, 2015

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

Infrastructure

Infrastructure investments provide attractive returns plus inflation sensitivity with a long investment horizon. The Fund's infrastructure investments totaled $1.3 billion at year end and were up from the previous year. Infrastructure projects include transportation/logistics (e.g., toll roads, airports, ports, and rail); power/energy (e.g., contracted power generation; power transmission and pipelines); and utilities (e.g., water, waste water, natural gas networks). Infrastructure returned 13.0 per cent compared to its benchmark return of 16.2 per cent. The infrastructure assets, much like other private investments, are valued less often than the public market benchmarks.

Private Infrastructure Program Top 10 Holdings

As at March 31, 2015

Company	Sector	Geography
Autopista Central	Transportation	Chile
Porterbrook	Transportation	UK
Saesa Group	Integrated Utilities	Chile
Puget Sound Energy	Integrated Utilities	US
Frequency Infrastructure Group	Communication	Australia / UK
Thames Water	Water	UK
Compania Logistica de Hidrocarburos	Pipelines & Midstream	Spain
Linden Cogen Holdings LLC	Power Generation	US
Kinder Morgan Inc	Pipelines & Midstream	US
Brussels Airport	Transportation	Belgium
Total Top 10 Holdings (millions)	**$1,191.0**	

CURRENCY EXPOSURE

The Fund invests in a globally diversified portfolio, but most of the assets remain denominated in Canadian dollars. The Fund policy is based on a study produced by the Department and State Street Associates that recommends the Fund seek foreign denominated assets, particularly U.S. dollar assets. The study showed that the Canadian dollar is highly correlated to oil, gas and bitumen prices. In the event of a decline in oil prices, the Fund's foreign assets should benefit from the associated decline in the Canadian dollar. Therefore, income from the Fund should increase and help partially offset declines in commodity driven provincial revenue. The majority of the Fund's assets are denominated in Canadian dollars, which amounts to 58.6 per cent of the Fund at March 31, 2015. This is up from the previous year, when the Fund had 55.9 per cent invested in Canadian dollar denominated assets. The remainder of the assets are allocated globally in 37 other currencies, the main ones being the U.S. dollar, Euro, Japanese yen, and British pound. The Fund's largest foreign currency exposure is $4.1 billion invested in the U.S. dollar assets.

ALBERTA EXPOSURE

The Alberta Heritage Savings Trust Fund does not have a mandate to invest directly in to the Alberta market, but through its normal operations, AIMCo on behalf of the Fund, has invested in companies and assets that are headquartered or located in Alberta.

The Fund has $1.8 billion invested in Alberta, the largest of which is in real estate, which has just under $1 billion invested in various properties located in Alberta. This is followed by $313 million that is invested in publicaly traded companies that are headquartered in the province. The amounts do not include businesses that are headquartered elsewhere, but have significant economic exposure to the Alberta economy.

Currency Exposure

As at March 31, 2015

	2015	2014
Canadian Dollar	58.6%	55.5%
US Dollar	22.2%	23.8%
Euro	4.4%	5.1%
British Pound	2.8%	3.4%
Japanese Yen	2.6%	2.6%
Hong Kong Dollar	1.4%	-
Swiss Franc	1.2%	1.3%
Australian Dollar	1.1%	1.1%
Other	5.7%	7.1%
Total	**100.0%**	**100.0%**

Alberta Exposure

As at March 31, 2015

Asset Class	Market Value (Millions)
Real Estate	$976.1
Equity	$313.3
Fixed Income	$246.1
Mortgages	$101.6
Private Equity	$115.8
Total	**$1,752.9**

Top 10 Alberta Public Equity Holdings

As at March 31, 2015

Holdings	Market Value (Millions)
Canadian Natural Resources	$28.9
TransCanada Corporation	$27.5
Chinook Energy Inc	$24.0
Enbridge Inc	$19.0
Keyera Corporation	$17.9
Suncor Energy Inc	$13.8
Encana Corporation	$13.6
Pembina Pipeline Corporation	$12.0
Atco Ltd	$10.7
Cenovus Energy Inc	$9.6
Total	**$177.0**

HISTORICAL SUMMARY OF OPERATIONS

May 19, 1976 to March 31, 2015

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

Fiscal Year	Net Income (Loss)[a]	TRANSFERS TO THE FUND			TRANSFERS FROM THE FUND			Fund Equity (at cost)
		Resource Revenue Allocation	Deposits	Advanced Education Endowment [b]	Investment Income Transfers[c]	Capital Project Expenditures	Other Transfers	
1976-77	88	2,120	-	-	-	(36)	-	2,172
1977-78	194	931	-	-	-	(87)	-	3,210
1978-79	294	1,059	-	-	-	(132)	-	4,431
1979-80	343	1,332	-	-	-	(478)	-	5,628
1980-81	724	1,445	-	-	-	(227)	-	7,570
1981-82	1,007	1,434	-	-	-	(349)	-	9,662
1982-83	1,482	1,370	-	-	(867)	(296)	-	11,351
1983-84	1,467	720	-	-	(1,469)	(330)	-	11,739
1984-85	1,575	736	-	-	(1,575)	(228)	-	12,247
1985-86	1,667	685	-	-	(1,667)	(240)	-	12,692
1986-87	1,445	217	-	-	(1,445)	(227)	-	12,682
1987-88	1,353	-	-	-	(1,353)	(129)	-	12,553
1988-89	1,252	-	-	-	(1,252)	(155)	-	12,398
1989-90	1,244	-	-	-	(1,244)	(134)	-	12,264
1990-91	1,337	-	-	-	(1,337)	(150)	-	12,114
1991-92	1,382	-	-	-	(1,382)	(84)	-	12,030
1992-93	785	-	-	-	(785)	(84)	-	11,946
1993-94[e]	1,103	-	-	-	(1,103)	(71)	-	11,875
1994-95	914	-	-	-	(914)	(49)	-	11,826
1995-96	1,046	-	-	-	(1,046)	-	-	11,826
1996-97	932	-	-	-	(756)[d]	-	-	12,002
1997-98	947	-	-	-	(922)[d]	-	-	12,027
1998-99	932	-	-	-	(932)	-	-	12,027
1999-00	1,169	-	-	-	(939)[d]	-	-	12,257
2000-01	706	-	-	-	(706)	-	-	12,257
2001-02	206	-	-	-	(206)	-	-	12,257
2002-03	(894)	-	-	-	-	-	-	11,363
2003-04	1,133	-	-	-	(1,133)	-	-	11,363
2004-05	1,092	-	-	-	(1,092)	-	-	11,363
2005-06	1,397	-	1,000	750	(1015)[d]	-	-	13,495
2006-07	1,648	-	1,000	250	(1365)[d]	-	-	15,028
2007-08	824	-	918	-	(358)[d]	-	-	16,412
2008-09	(2,574)	-	-	-	-	-	-	13,838
2009-10	2,006	-	-	-	(2,006)	-	-	13,838
2010-11	1,080	-	-	-	(720)[d]	-	-	14,198
2011-12	798	-	-	-	(344)[d]	-	-	14,652
2012-13	1,316	-	-	-	(1155)[d]	-	-	14,813
2013-14	2,109	-	-	-	(1916)[d]	-	-	15,006
2014-15	1,678	-	-	-	(1468)[d]	-	(255)	14,961
TOTAL	37,207	12,049	2,918	1,000	(34,472)	(3,486)	(255)	14,961

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

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

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

d At March 31, 2015 the accumulated amount retained in the Fund for inflation-proofing was $2.940 million (2014: $2.730 million).

e March 31, 1996 marked the end of the old structure of the Heritage Fund. In 1996-97, the Fund commenced a structuring process under a new framework. The new framework provided for a transition into more market based investments, inflation proofing the Fund and a long-term investment horizon providing for the greatest financial returns on investments.

Independent Auditor’s Report

To the President of Treasury Board and Minister of Finance

Report on the Financial Statements

I have audited the accompanying financial statements of the Alberta Heritage Savings Trust Fund, which comprise the statement of financial position as at March 31, 2015, and the statements of operations and accumulated surplus, remeasurement gains and losses, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management’s Responsibility for the Financial Statements

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

Auditor’s Responsibility

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

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

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Alberta Heritage Savings Trust Fund as at March 31, 2015, and the results of its operations, its remeasurement gains and losses, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[Original signed by Merwan N. Saher, FCA]

Auditor General

June 5, 2015

Edmonton, Alberta

ALBERTA HERITAGE SAVINGS TRUST FUND

FINANCIAL STATEMENTS MARCH 31, 2015

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Statement of Financial Position

As at March 31, 2015

(in millions)

	2015	2014
Financial assets		
Investments (Note 3)	$ 18,319	$ 17,656
Accrued income	-	11
	$ 18,319	$ 17,667
Liabilities		
Due to the General Revenue Fund	$ 371	$ 147
Net financial assets (Note 5)		
Accumulated operating surplus	14,961	15,006
Accumulated remeasurement gains	2,987	2,514
	17,948	17,520
	$ 18,319	$ 17,667

The accompanying notes are part of these financial statements.

Statement of Operations and Accumulated Surplus

Year Ended March 31, 2015

(in millions)

	2015		2014
	Budget	**Actual**	**Actual**
Investment income (Note 7)	$ 1,603	$ 1,825	$ 2,272
Investment expenses (Note 8)	(150)	(147)	(163)
Net income from operations	1,453	1,678	2,109
Transfers to the General Revenue Fund (Note 5b)	(1,094)	(1,468)	(1,916)
Net surplus retained in the Fund for inflation-proofing (Note 5b)	359	210	193
Transfers to the Alberta Heritage Scholarship Fund (Note 5d)	(200)	(200)	-
Transfers for Agriculture and Food Innovation (Note 5d)	(9)	(3)	-
Transfers to the Access to the Future Fund (Note 6)	(53)	(52)	-
Net operating surplus (deficiency)	$ 97	(45)	193
Accumulated operating surplus, beginning of period		15,006	14,813
Accumulated operating surplus, end of period		$ 14,961	$ 15,006

Statement of Remeasurement Gains and Losses

Year Ended March 31, 2015

(in millions)

	2015	2014
Accumulated remeasurement gains, beginning of period	$ 2,514	$ 1,966
Unrealized gain on investments	789	903
Less: Amounts reclassified to the Statement of Operations - realized gains on investments	(316)	(355)
Accumulated remeasurement gains, end of period	$ 2,987	$ 2,514

The accompanying notes are part of these financial statements.

Statement of Cash Flows

Year Ended March 31, 2015

(in millions)

	2015	2014
Operating transactions		
Net income from operations	$ 1,678	$ 2,109
Non-cash items included in net income	(316)	(355)
	1,362	1,754
Decrease in accounts receivable	11	2
Decrease in accounts payable	-	(5)
Cash provided by operating transactions	1,373	1,751
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	3,397	3,759
Purchase of investments	(3,265)	(3,357)
Cash provided by investing transactions	132	402
Transfers		
Transfers to the General Revenue Fund	(1,468)	(1,916)
Transfers to the Alberta Heritage Scholarship Fund	(200)	-
Transfers for Agriculture and Food Innovation	(3)	-
Transfers to the Access to the Future Fund	(52)	-
Increase (decrease) in amounts due to the General Revenue Fund	224	(238)
Cash used in transfers	(1,499)	(2,154)
Increase (decrease) in cash	6	(1)
Cash at beginning of period	43	44
Cash at end of period	$ 49	$ 43
Consisting of Deposits in the Consolidated Cash Investment Trust Fund (CCITF) *	$ 49	$ 43

* The CCITF is a highly-liquid, short-term money market pooled fund consisting primarily (90%) of securities with maturities of less than one year.

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

March 31, 2015
(in millions)

NOTE 1 AUTHORITY AND MISSION

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

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

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

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

a) VALUATION OF INVESTMENTS

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

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

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

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

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

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

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

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

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

b) INVESTMENT INCOME

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

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

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

c) INVESTMENT EXPENSES

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

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

d) REMEASUREMENT GAINS AND LOSSES

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

e) MEASUREMENT UNCERTAINTY

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

f) TRANSFERS TO THE GENERAL REVENUE FUND (GRF)

Transfers to the GRF are recorded on an accrual basis. In accordance with Section 8 (2) of the Act, all of the net income of the Fund is transferred to the GRF except for any amount retained in the Fund to maintain its value against inflation (see Note 5 (b)).

NOTE 3 INVESTMENTS (in millions)

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

	Fair Value Hierarchy [(a)]				
Asset class	Level 1	Level 2	Level 3	**2015**	**2014**
Interest-bearing securities					
Deposits in CCITF	$ -	$ 49	$ -	$ 49	$ 43
Bonds, mortgages and private debt	-	1,835	1,294	3,129	3,269
	-	1,884	1,294	3,178	3,312
Equities					
Canadian	1,109	390	-	1,499	1,435
Global developed	3,432	503	1,975	5,910	5,974
Emerging markets	660	29	-	689	717
Private	-	-	1,311	1,311	1,260
	5,201	922	3,286	9,409	9,386
Inflation sensitive					
Real estate	-	-	3,682	3,682	3,257
Infrastructure	-	-	1,347	1,347	1,109
Timberland	-	-	417	417	387
	-	-	5,446	5,446	4,753
Strategic opportunities and tactical allocations *	-	132	154	286	205
Total Fair Value of Investments	$ 5,201	$ 2,938	$ 10,180	$ 18,319	$ 17,656

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

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

- ***Level 1*** - fair value is based on quoted prices in an active market. This level includes publicly traded listed equity investments totalling $5,201 (March 31, 2014: $4,897).
- ***Level 2*** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes debt securities and derivative contracts not traded on a public exchange totalling $2,938 (March 31, 2014: $3,703). For these investments, fair value is either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.
- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes private mortgages, hedge funds, private equities and all inflation sensitive investments totalling $10,180 (March 31, 2014: $9,056).

Reconciliation of Level 3 Investments

	2015	2014
Balance, beginning of year	$ 9,056	$ 8,098
Unrealized gains	622	637
Purchases of Level 3 pooled fund units	1,556	1,363
Sale of Level 3 pooled fund units	(1,054)	(1,042)
Balance, end of year	$ 10,180	$ 9,056

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 is explained in the following paragraphs:

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

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

NOTE 4 INVESTMENT RISK MANAGEMENT (in millions)

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

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

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

	Target Asset	Actual Asset Mix			
Asset Class	**Policy Mix**	**2015**		**2014**	
Interest-bearing securities	15 - 45%	$ 3,178	17.3%	$ 3,312	18.8%
Equities	35 - 70%	9,409	51.4%	9,386	53.1%
Inflation sensitive	15 - 40%	5,446	29.7%	4,753	26.9%
Strategic opportunities and tactical allocations	(a)	286	1.6%	205	1.2%
		$ 18,319	100.0%	$ 17,656	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.

a) Credit Risk

i) Debt securities

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

The table below summarizes debt securities by counterparty credit rating at March 31, 2015:

Credit rating	2015	2014
Investment Grade (AAA to BBB-)	70.9%	70.3%
Speculative Grade (BB+ or lower)	0.4%	0.3%
Unrated	28.7%	29.4%
	100.0%	100.0%

ii) Counterparty default risk - derivative contracts

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

NOTE 4 INVESTMENT RISK MANAGEMENT (in millions) CONTINUED

iii) Security lending risk

To generate additional income, the pools participate in a securities-lending program. Under this program, the custodian may lend investments held in the pools to eligible third parties for short periods. At March 31, 2015, the Fund's share of securities loaned under this program is $332 million (March 31, 2014: $320 million) and collateral held totals $348 million (March 31, 2014: $336 million). Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) Foreign currency risk

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

If the value of the Canadian dollar increased by 10% against all other currencies, and all other variables are held constant, the potential loss in fair value to the Fund would be approximately 4.1% of total investments (March 31, 2014: 4.4%).

The following table summarizes the Fund's exposure to foreign currency investments held in the pools at March 31, 2015:

	2015		2014	
Currency	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 4,066	$ (407)	$ 4,171	$ (417)
Euro	813	(81)	886	(89)
British pound sterling	512	(51)	600	(60)
Japanese yen	469	(47)	461	(46)
Hong Kong dollar	259	(26)	234	(23)
Swiss franc	214	(21)	234	(23)
Australian dollar	207	(21)	193	(19)
Other foreign currency	1,037	(104)	1,011	(102)
Total foreign currency investments	$ 7,577	$ (758)	$ 7,790	$ (779)

c) Interest rate risk

The Fund is exposed to interest rate risk associated with the underlying interest-bearing securities held in the pools managed by AIMCo. Interest rate risk relates to the possibility that the fair value of investments will change due to future fluctuations in market interest rates. In general, investment returns from bonds and mortgages are sensitive to changes in the level of interest rates, with longer term interest bearing securities being more sensitive to interest rate changes than shorter-term bonds. If interest rates increased by 1%, and all other variables are held constant, the potential loss in fair value to the Fund would be approximately 1.1% of total investments (March 31, 2014: 0.8%).

d) Price risk

Price risk relates to the possibility that pool units will change in fair value due to future fluctuations in market prices of equities held in the pools caused by factors specific to an individual equity investment or other factors affecting all equities traded in the market. The Fund is exposed to price risk associated with the underlying equity investments held in the pools managed by AIMCo. If equity market indices (S&P/TSX, S&P500, S&P1500 and MSCI ACWI and their sectors) declined by 10%, and all other variables are held constant, the potential loss in fair value to the Fund would be approximately 6.3% of total investments (March 31, 2014: 5.8%). Changes in fair value of investments are recognized in the statement of remeasurement gains and losses.

e) Liquidity risk

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

f) Use of Derivative Financial Instruments in Pooled Investment Funds

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

		Fund's Indirect Share	
By counterparty	Number of counterparties	**2015**	**2014**
Contracts in favourable position (current credit exposure)	24	$ 56	$ 98
Contracts in unfavourable position	18	(161)	(72)
Net fair value of derivative contracts	42	$ (105)	$ 26

i) Current credit exposure: The current credit exposure is limited to the amount of loss that would occur if all counterparties to contracts in a favourable position totaling $56 (March 31, 2014: $98) were to default at once.

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

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

Types of derivatives used in pools	Fund's Indirect Share 2015	2014
Structured equity replication derivatives	$ 8	$ 91
Foreign currency derivatives	(101)	(66)
Interest rate derivatives	(17)	4
Credit risk derivatives	5	(3)
Net fair value of derivative contracts	$ (105)	$ 26

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

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

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

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

v) Deposits: At March 31, 2015 deposits in futures contracts margin accounts totalled $51 (March 31, 2014: $91) and deposits as collateral for derivative contracts totalled $78 (March 31, 2014: $17).

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 2015	2014
Accumulated net income	$ 37,207	$ 35,529
Transfers to the Fund		
Resource Revenue (1976-1987)	12,049	12,049
Access to the Future [a]	1,000	1,000
Voted Payments	2,918	2,918
	15,967	15,967
Transfers (from) the Fund		
Section 8(2) transfers [b]		
Income	(37,412)	(35,734)
Amount Retained for Inflation-proofing	2,940	2,730
	(34,472)	(33,004)
Capital Expenditures (1976-1995) [c]	(3,486)	(3,486)
Transfers to Alberta Heritage Scholarship Fund [d]	(200)	-
Transfers for Agriculture and Food Innovation [d]	(3)	-
Transfers to the Access to the Future Fund	(52)	-
	(38,213)	(36,490)
Accumulated surplus from operations	14,961	15,006
Accumulated remeasurement gains	2,987	2,514
Carrying value of net financial assets	$ 17,948	$ 17,520

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

[(b)] During the year, the Fund earned net income of $1,678 million, of which $210 million was retained in the Fund for inflation proofing and $1,468 million is payable to the GRF. Section 8(2) of the Act states that the net income of the Heritage Fund less any amount retained in the Fund to maintain its value, in accordance with section 11(1), shall be transferred to the GRF annually in a manner determined by the Ministry of Treasury Board and Finance. If the income of the Fund is less than that required to be retained, then the income, if any, shall be retained in the Fund. The estimated amount retained from income of the Fund is determined by multiplying the total equity of the Fund before the amount retained for inflation-proofing by the estimated percentage increase in the Canadian gross domestic product implicit price index (GDP Deflator Index) for the year. In accordance with section 11(3), if the GDP Deflator Index is a negative number, that negative number shall be treated as if it were zero.

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

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

NOTE 6 INVESTING IN ADVANCED EDUCATION (in millions)

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

	Advanced Education Endowment Account	
	2015	**2014**
Opening balance	1,166	1,151
Rate of return adjustment	146	-
Inflation-proofing	-	15
Transfers	(52)	-
Closing balance	$ 1,260	$ 1,166

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

ii) A maximum of $3 billion can be allocated to the account from within the Fund of which $750 million has been allocated in 2005-06 and $250 million in 2006-07. The balance at March 31, 2014 includes accumulated inflation proofing totalling $166 million. The requirement to inflation proof the account in the *Access to the Future Act* was repealed on April 1, 2014. Starting April 1, 2014, the balance in the account is adjusted for (a) the rate of return reported by the Fund for the year and (b) transfers to the Access to the Future Fund. Prior to April 1, 2014, transfers to the Access to the Future Fund (2014: $52 million) were made directly from the GRF and therefore had no impact on the balance in the Advanced Education Endowment Account.

iii) Maximum transfers from the Fund to the Access to the Future Fund are calculated as 4.5% of the average of the closing balances of the Account for the preceding 3 fiscal years.

NOTE 7 INVESTMENT INCOME (in millions)

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

	2015	2014
Interest-bearing securities	$ 130	$ 171
Equities		
Canadian	130	170
Global	1,182	1,584
Private	117	88
	1,429	1,842
Inflation sensitive		
Real estate	221	232
Infrastructure	53	(19)
Timberland	(5)	27
Private debt and loan	-	16
	269	256
Strategic opportunities and tactical allocations	(3)	3
	$ 1,825	$ 2,272

The investment income includes realized gains and losses from disposal of pool units and income distributions from the pools.

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

NOTE 8 INVESTMENT EXPENSES (in millions)

	2015	2014
Amount charged by AIMCo for:		
Investment costs [(a)]	111	115
Performance based fees [(a)]	36	48
Total investment expenses	$ 147	$ 163
Increase (decrease) in expenses	-9.8%	10.1%
Increase in average investments under management	3.3%	3.6%
Investment expense as a percent of:		
Dollar earned	8.1%	7.2%
Dollar invested	0.8%	0.9%

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

Includes $127 thousand (March 31, 2014: $138 thousand) charged to the Fund by Alberta Treasury Board and Finance for investment accounting and reporting services, and $116 thousand (March 31, 2014: $51 thousand) paid to the International Forum of Sovereign Wealth Funds for membership.

NOTE 9 INVESTMENT PERFORMANCE (net of investment expenses)

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

			Average Annualized Return	
Time-weighted rates of return, at fair value [(a)]	2015	2014	5 years	10 years
Estimated return [(b)]	12.5%	16.0%	11.7%	8.0%
Estimated policy benchmark return[(b)]	14.7%	16.0%	11.2%	7.9%
Value added by investment manager[(c)]	-2.2%	0.0%	0.5%	0.1%

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

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

NOTE 10 FINANCIAL STATEMENTS

These statements were prepared by the Department of Treasury Board and Finance in accordance with section 15(1) of the Act.