Alberta Heritage Savings Trust Fund and Contingency Account
**Market Value**

**Alberta Heritage Savings Trust Fund and Contingency Account**

$16.8 billion

**Santiago Compliance Index**

77 / 100

**Resource Governance Index Natural Resource Fund Score**

73 / 100

**Truman Sovereign Wealth Fund Scoreboard**

86 / 100

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**Good Governance Fundamentals**

<table>
<thead>
<tr>
<th>Good Governance Fundamentals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clear Deposit Rules</td>
</tr>
<tr>
<td>Clear Withdrawal Rules</td>
</tr>
<tr>
<td>Clear Investment Rules</td>
</tr>
<tr>
<td>Transparent</td>
</tr>
<tr>
<td>Publicly Available Audits</td>
</tr>
<tr>
<td>Effective Oversight</td>
</tr>
</tbody>
</table>

**Fund Highlights**

- The Alberta Heritage Savings Trust Fund was established in 1976. The Contingency Account was established in 2013.

- The objective of the Alberta Heritage Savings Trust Fund is to save and invest non-renewable resource revenues for the future. The objective of the Contingency Account is to cover short-term fiscal deficits.

- Once the Contingency Account has reached at least $5 billion, a set percentage of oil, gas and mining revenues is distributed among the Alberta Heritage Savings Trust Fund and several other funds benefiting scientific research and education. How much goes to each fund is left to the Alberta Treasury Board’s discretion.

- The Alberta Heritage Savings Trust Fund’s objective is to earn an average annual real return of 4.5 percent.

- The Legislative Assembly has a standing committee tasked with reviewing fund performance.

- The Alberta Heritage Savings Trust Fund is exceedingly transparent, publishing details on specific investments.
**Fund Inception**

- The Alberta Heritage Savings Trust Fund was established in 1976 by the Alberta Heritage Savings Trust Fund Act.
- In 1996, the Alberta Heritage Savings Trust Fund Act was amended after a government survey of Albertans revealed that the public wanted it to be used as a future generations savings fund.
- The Fiscal Management Act of 2013 created the Contingency Account as a stabilization fund.

**Fund Objectives**

- Under the original Alberta Heritage Savings Trust Fund Act, the Fund was established in order to save oil revenues for the future, strengthen and diversify the economy, and improve Albertans’ quality of life.
- With the amendment of the Alberta Heritage Savings Trust Fund Act in 1996, the Fund is no longer used by the government for economic and social development. The purpose of the Fund is now 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 purpose of the Contingency Account is to provide budget financing in those years where expenses exceed revenues.
Good Governance Standards and Gaps in Regulation

Each box represents a regulatory standard essential for promoting consistent use of and safeguarding resource revenues. White boxes highlight regulatory gaps in fund governance.

12/16
Good Governance Standards Met

**OPERATIONS**
- Objectives are Clear
- Rule for How Much Can be Withdrawn in Any Given Year
- Rule for Which Revenues Must be Deposited and When
- Exceptions to Rules are Clarified

**INVESTMENT**
- Use of Resource Revenues as Collateral
- Domestic Investment is Explicitly Prohibited
- Investment Risk Limitations
- Publication of Specific Investments

**MANAGEMENT**
- Penalties for Misconduct by Fund Managers & Staff
- Ethical & Conflict of Interests Standards for Managers & Staff
- The Detailed Responsibilities of Fund Managers & Staff
- The Role of Government Agencies in Fund Management

**TRANSPARENCY AND OVERSIGHT**
- Public Disclosure of Independent External Audits
- Public Disclosure of Internal Audit Results
- Formalized Oversight Mechanism
- Public Disclosure of Regularly Compiled Fund Reports
Operational Laws, Rules and Policies

Fund Deposit Rules

1976-1982
• Fund deposit rules have changed a lot since the Fund was first established in 1976. Initially, 30 percent of non-renewable resource revenues were deposited into the Fund. According to the Alberta Heritage Savings Trust Fund Act, non-renewable resource revenues include:
  - Money received under mineral agreements or contracts regarding the recovery, processing or sale of a mineral or mineral product, the development of mines or quarries, and royalties from any minerals recovered;
  - Fees and bonuses paid in connection with the above mineral agreements or contracts;
  - Money from any sales of the government’s share of royalties from a mineral; and
  - Money received in place of royalty payments if already agreed to under a contract.
• Income from investments are also considered part of the Fund.

1982-1987
• The percentage of non-renewable resource revenues deposited into the Fund was reduced to 15 percent in 1982 until deposits were suspended altogether in 1987.

1987-2013
• Since then, the only deposits into the Fund have been discrete amounts totaling $3 billion in 2006 and $918 million in 2008. Both were budget surpluses from previous years.

2013-
• With the Fiscal Management Act of 2013, deposits of non-renewable resource revenues will resume under the following rules each year:
  - 5% of the first $10 billion in non-renewable resource revenue;
  - 25% of the next $5 billion above that; and
  - 50% of all non-renewable resource revenue in excess of $15 billion.
• The 2013 budget adjusts the new deposit rule by depositing the first $5 billion in resource revenue into a new Contingency Account for fiscal stabilization purposes. In subsequent years, all or some of any fiscal surpluses will be deposited into the Contingency Account. The Alberta Treasury determines the portion of fiscal surpluses to be deposited into the Account. The size of the Contingency Fund cannot fall below $5 billion.
• Once the Contingency Fund has reached $5 billion, the deposit rules in the Fiscal Management Act of 2013 will apply. Non-renewable resource revenues will be distributed to the Alberta Heritage Savings Trust Fund as well as other provincial endowment funds, specifically the Alberta Heritage Science and Engineering Research Endowment Fund, the Alberta Heritage Foundation for Medical Research Endowment Fund and the Alberta Heritage Scholarship Fund. It is at the discretion of the Alberta Treasury Board to determine the allocation between the funds.
Fund Withdrawal Rules

Alberta Heritage Savings Trust Fund

• Since the Alberta Heritage Savings Trust Fund Act was amended in 1996 to prohibit the use of funds for economic and social development projects, only investment income has been withdrawn. Non-renewable resource revenues deposited into the Fund cannot be withdrawn.

• Investment income of the Fund is transferred to the general budget, also known as the General Revenue Fund, minus an amount that is retained in the Alberta Heritage Savings Trust Fund to offset inflation.\(^{15}\)

• Under the Fiscal Management Act of 2013, the net income of the Fund will no longer be withdrawn after fiscal year 2017/2018 and will instead be retained in the Fund using a graduated process.\(^{16}\) Although originally set to start in fiscal year 2015/2016, the government has decided to move the starting date up one year and will now be implemented as follows:\(^{17}\)
  
  • 30% of net income or the amount needed for inflation-proofing, whichever is greater, is retained by 2014/2015;
  
  • 50% of net income or the amount needed for inflation-proofing, whichever is greater, is retained by 2014/2016; and
  
  • 100% of net income is retained by 2016/2017.

Contingency Account

At the end of the fiscal year, the government may draw down on the Contingency Fund if it ran a budget deficit. However, the Account must be replenished to a minimum of $5 billion when the government runs a budget surplus.
Flow of Funds

Funds first go to the Contingency Account before the Alberta Heritage Savings Trust Fund or other endowment funds until the Account reaches its cap of $5 billion; no further deposits of non-renewable resource revenues are made after the Account reaches its cap for the first time.

Non-renewable resources are made available for deposits as follows:
- 5% of the first $10 billion in non-renewable resource revenues
- 25% of the next $5 billion above that
- 50% of all non-renewable resource revenues above $15 billion

Non-renewable resource revenues are deposited into the Alberta Heritage Savings Trust Fund and other endowments funds after the Contingency Account reaches its cap of $5 billion for the first time; exact share of revenues each fund receives is determined by the Alberta Treasury Board.

At present, net income minus an amount to offset inflation; as of 2018, no more transfers.

After the Contingency Account reaches its cap of $5 billion for the first time, any subsequent drops below $5 billion are replenished using fiscal surplus rather than non-renewable resource revenues.

Funds withdrawn in order to cover deficits.

General Revenue Fund (Alberta’s General Budget)

Contingency Account

Alberta Heritage Savings Trust Fund

Other Endowment Funds (see page 5)

Non-Renewable Resource Revenue
**Investment Authority**
Under the Alberta Heritage Savings Trust Fund Act, ultimate responsibility for the Fund’s investments lies with Alberta’s President of Treasury Board and Minister of Finance. Responsibility for the day-to-day management of investments is held with the Alberta Investment Management Corporation, an external body established by the Alberta Investment Management Corporation Act to provide investment management services for the various provincial endowment funds.

**Investment Objectives**
The Fund’s target asset allocation is expected to earn an annual real return of 4.5 percent on average over a five-year period, after expenses. Investment managers are expected to generate an additional average annual return of 1 percent for a total of 5.5 percent when the actual investments are made.

**Investment Allocation**
The policy target asset allocation is:
- 20 percent money market and fixed income
- 30 percent inflation sensitive and alternative investments (includes real estate, infrastructure and private debt)
- 50 percent equities (42 percent global equities and 8 percent Canadian equities)

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**Investment Strategy**
- The Fund invests long-term, balancing higher risk with higher expected returns.
- There are periodic reviews of investment policy, risk profile and asset allocations.
- Risk is managed at both the portfolio level and at the level of individual investments.
- Deviation from target asset allocation is allowed if it is able to improve rates of return in relation to risk.
- Investment managers may pursue active management by making choices to deviate from the policy portfolio in order to generate higher returns.
- The Fund is not allowed to make direct investments in companies in the tobacco industry.

**Policy on In-State Investments:**
Fund assets may be invested anywhere in Canada including Alberta.
Investment Laws, Rules and Policies

Allocation by Asset Class
As of March 2013
- Inflation-sensitive and Alternative Investments: 27%
- Fixed Income and Money Market: 20%
- Equities: 53%

Equity Allocation by Geographic Region
As of March 2013
- Private Equity: 12%
- Canada: 15%
- Emerging Markets: 10%
- Developed Markets: 63%
Management and Accountability

Management and internal accountability

The Premier selects the President of Treasury Board and Minister of Finance.

The Standing Committee reviews the Fund’s performance each year and reports to the Legislature on its findings.

The President of Treasury Board and Minister of Finance has ultimate responsibility for management of the Fund’s investments.

The Department of Treasury Board and Finance develops the investment policies and guidelines for the Fund.

The Alberta Investment Management Corporation handles day-to-day management of the Fund.

Although a majority of funds are managed internally, a portion is managed by external fund managers.

External accountability

The Legislature passed the legislation creating the Alberta Heritage Savings Trust Fund and the Alberta Investment Management Corporation. It receives quarterly and annual reports from the President of Treasury Board and Minister of Finance after they are reviewed and approved by the Standing Committee.

The Auditor General audits the Fund, which is included in the President of Treasury Board and Minister of Finance’s report to the Standing Committee. The Auditor General is selected by and can be dismissed by the Legislative Assembly.
Oversight and Safeguards

Oversight Mechanisms

• The Legislative Standing Committee of the Alberta Heritage Savings Trust Fund, which contains representatives from all parties of the Legislature, conducts annual reviews of the Fund’s performance, ensuring compliance with the regulations governing the Fund. The Standing Committee is required by law to hold annual public meetings.

• The Legislative Standing Committee on Public Accounts reviews Alberta’s public finances and holds public meetings with the Ministry of Treasury Board and Finance to discuss budget issues, including management of the Contingency Account.

• The Department of Treasury Board and Finance performs a periodic review of investment methodology.

• Fund finances are subject to a regular external audit by the Auditor General. However, the Auditor General is selected and dismissed by the Legislative Assembly, which is controlled by governing party.

• Deposits into Alberta’s various endowment funds are approved by the Legislature.

Common Oversight Mechanisms or Safeguards Not Present in Alberta

• There is little regular monitoring by citizens or civil society organizations.
### Transparency Laws, Rules and Policies

There is public disclosure of the following:

<table>
<thead>
<tr>
<th>Information</th>
<th>Disclosed?</th>
</tr>
</thead>
<tbody>
<tr>
<td>When or how often Fund reports are published and made publicly available</td>
<td>yes</td>
</tr>
<tr>
<td>Which individuals or organizations are responsible for publishing Fund reports</td>
<td>yes</td>
</tr>
<tr>
<td>Size of the Fund(s)</td>
<td>yes</td>
</tr>
<tr>
<td>Deposit and withdrawal amounts</td>
<td>yes</td>
</tr>
<tr>
<td>Returns on investments</td>
<td>yes</td>
</tr>
<tr>
<td>Detailed asset allocation – geographic location</td>
<td>yes</td>
</tr>
<tr>
<td>Detailed asset allocation – asset class</td>
<td>yes</td>
</tr>
<tr>
<td>Detailed asset allocation – specific assets</td>
<td>yes</td>
</tr>
<tr>
<td>Natural resource prices and other fiscal assumptions used to calculate deposit and withdrawal amounts allowed under fiscal rules</td>
<td>yes</td>
</tr>
</tbody>
</table>
Annex:
List of Applicable Laws

Alberta Heritage Savings Trust Fund Act (including amendments)

Alberta Investment Management Corporation Act

Fiscal Management Act

Financial Administration Act

Mines and Minerals Act
Endnotes