



## Santiago Principles Self-Assessment

### Alberta Heritage Savings Trust Fund

[Fund Details](#) <sup>[1]</sup> [Fund Website](#) <sup>[2]</sup> [Search Assessments](#) <sup>[3]</sup>

#### Pillar 1

#### Legal framework, objectives, and coordination with macroeconomic policies

##### Principle 1 Description:

1. The legal framework for the SWF should be sound and support its effective operation and the achievement of its stated objective(s).

1.1. The legal framework for the SWF should ensure legal soundness of the SWF and its transactions.

1.2. The key features of the SWF's legal basis and structure, as well as the legal relationship between the SWF and other state bodies, should be publicly disclosed.

##### Principle 1 Implementation:

The Alberta Heritage Savings Trust Fund is not a separate legal entity. The legal framework is established in the Alberta Heritage Savings Trust Fund Act. Her Majesty, with the advice and consent of the Legislative Assembly, has delegated responsibility for investment of the fund to the President of Treasury Board and Minister of Finance. Her Majesty in Right of Alberta is the legal and beneficial owner of the fund. The President of Treasury Board and Minister of Finance has the legal authority to enter into agreements where the fund is concerned. Operationally the fund is invested independently of the governing body so interactions between other state bodies do not occur.

##### Principle 2 Description:

The policy purpose of the SWF should be clearly defined and publicly disclosed.

##### Principle 2 Implementation:

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

<http://www.qp.alberta.ca/documents/Acts/A23.pdf> [4]

### **Principle 3 Description:**

3. Where the SWF's activities have significant direct domestic macroeconomic implications, those activities should be closely coordinated with the domestic fiscal and monetary authorities, so as to ensure consistency with the overall macroeconomic policies.

### **Principle 3 Implementation:**

The fund is a sub-sovereign fund of the province of Alberta in the country of Canada. It has no direct activities with the fiscal framework or monetary authorities of Canada. The fund lacks the size to have any impact on macroeconomic policies.

### **Principle 4 Description:**

4. There should be clear and publicly disclosed policies, rules, procedures, or arrangements in relation to the SWF's general approach to funding, withdrawal, and spending operations.

4.1. The source of SWF funding should be publicly disclosed.

4.2. The general approach to withdrawals from the SWF and spending on behalf of the government should be publicly disclosed.

### **Principle 4 Implementation:**

Initial funding for the fund came from a portion of Non-Renewable Resource revenues from 1976 to 1987. Current legislation states 5% of the first \$10 billion; 25% of the next C\$5 billion & 50% in excess of C\$15 billion is to be saved. Money is to be put in the Contingency account and once that reaches \$5 billion in assets the remainder is to be transferred to a prescribed savings account.

Realised net income is transferred to the General Revenue Fund, except amounts determined in Section 4(2) & (3) of the Fiscal Management Act. New legislation enacted in 2014 will only have payments made out of the fund in accordance with the Savings Management Act. Updates to funding, withdrawal and spending are disclosed in annual budget documents.

<http://www.qp.alberta.ca/documents/Acts/A23.pdf> [4]

### **Principle 5 Description:**

5. The relevant statistical data pertaining to the SWF should be reported on a timely basis to the owner, or as otherwise required, for inclusion where appropriate in macroeconomic data sets.

**Principle 5 Implementation:**

Alberta Investment Management Corporation (AIMCo) reports on the results and status of the investments on a quarterly and annual basis. These reports are supplied to the staff of the Department of Finance. Alberta Treasury Board and Finance reports to the Legislature and Albertans on the fund on a quarterly and annual basis. These reports are published on the Department's website. The department also publishes annually a list of holdings which is also available online.

<http://www.qp.alberta.ca/documents/Acts/A23.pdf> [4]

## **Pillar 2**

### **Institutional Framework and Governance Structure**

**Principle 6 Description:**

6. The governance framework for the SWF should be sound and establish a clear and effective division of roles and responsibilities in order to facilitate accountability and operational independence in the management of the SWF to pursue its objectives.

**Principle 6 Implementation:**

The governance framework is not included in one specific document but is laid out in many acts and regulations. These documents included but are not limited to the AHSTF Act, AIMC Act, Fiscal Management Act, and Statement of Investment Policy and Goals (SIP&G). The division of roles and accountabilities is clearly defined in the investment policy. The guidelines for the Minister have been clearly defined in the applicable legislation. The Minister has delegated certain responsibilities to staff within the Ministry to develop investment policy. Implementation of said policy has been delegated to the wholly owned investment manager AIMCo. The Act establishes a Standing Committee of the Legislative Assembly, which is made of 9 members of the Legislative Assembly from all of the parties. Their function is to receive and review the quarterly reports on operation and results of the fund. The committee is also responsible for approving annual reports and holding public meetings with Albertans on the investment activities and results of the funds.

<http://www.finance.alberta.ca/business/ahstf/heritage-fund-statement-investment-policy-and-goals.pdf> [5]

**Principle 7 Description:**

7. The owner should set the objectives of the SWF, appoint the members of its governing body(ies) in accordance with clearly defined procedures, and exercise oversight over the SWF's operations.

**Principle 7 Implementation:**

The Legislative Assembly has set the objectives for the Fund, as set out in the Act. Oversight of the Fund is provided by the Standing Committee of the Legislative Assembly on the Alberta Heritage Savings Trust Fund, whose membership is also set forth in the Act.

The President of Treasury Board and Minister of Finance appoint independent board members to the Board of the Alberta Investment Management Corporation, who operate independently of the government.

<http://www.qp.alberta.ca/documents/Acts/A23.pdf> [4]

#### **Principle 8 Description:**

8. The governing body(ies) should act in the best interests of the SWF, and have a clear mandate and adequate authority and competency to carry out its functions.

#### **Principle 8 Implementation:**

The mandates for the governing bodies are defined in the applicable legislation and documents alluded to in the above section. Authorities to carry out the mandates have been delegated as needed. All staff have been hired through a selection and screen process in order to have the necessary skill-set to perform their role. Performance is regularly reviewed and monitored.

#### **Principle 9 Description:**

9. The operational management of the SWF should implement the SWF's strategies in an independent manner and in accordance with clearly defined responsibilities.

#### **Principle 9 Implementation:**

The responsibility of investment management has been delegated to AIMCo. They are to invest the fund in accordance with the Statement of Investment Policy and Goals.

#### **Principle 10 Description:**

10. The accountability framework for the SWF's operations should be clearly defined in the relevant legislation, charter, other constitutive documents, or management agreement.

#### **Principle 10 Implementation:**

The Crown is the legal and beneficial owner of the assets. The Act provides the Minister with the authority to invest those assets. The Minister has then delegated responsibilities to his staff and AIMCo for the investment of the fund. The Minister reports to the Standing Committee, who in turn furnishes copies of the reports to the Legislature.

<http://www.finance.alberta.ca/business/ahstf/heritage-fund-statement-investment-policy-and-goals.pdf> [5]

#### **Principle 11 Description:**

11. An annual report and accompanying financial statements on the SWF's operations and

performance should be prepared in a timely fashion and in accordance with recognized international or national accounting standards in a consistent manner.

**Principle 11 Implementation:**

The Act states that an annual report and financial Statement are prepared in accordance with Public Sector Accounting Board (PSAB) prior to June 30th of the fiscal year being reported. The fiscal year end is 31 March.

<http://www.qp.alberta.ca/documents/Acts/A23.pdf> [4]

**Principle 12 Description:**

12. The SWF's operations and financial statements should be audited annually in accordance with recognized international or national auditing standards in a consistent manner.

**Principle 12 Implementation:**

The statements are audited by the Auditor General of Alberta. The Auditor General of Alberta is the independent auditor of every Government of Alberta ministry, department, regulated fund and agency.

**Principle 13 Description:**

13. Professional and ethical standards should be clearly defined and made known to the members of the SWF's governing body(ies), management, and staff.

**Principle 13 Implementation:**

The Minister is required by legislation to adhere to investment and lending policies, standards and procedures that a reasonable and prudent person would apply in a portfolio of investments. The department's and AIMCo's staff adhere to the CFA Institute's Code of Ethics and Standards of Professional Conduct. The Code of Ethics and Standards of Professional Conduct are the ethical benchmark for investment professionals around the globe, regardless of job title, cultural differences, or local laws.

**Principle 14 Description:**

14. Dealing with third parties for the purpose of the SWF's operational management should be based on economic and financial grounds, and follow clear rules and procedures.

**Principle 14 Implementation:**

The AHSTF Act states the fund is to be invested to maximise long-term financial returns.

**Principle 15 Description:**

15. SWF operations and activities in host countries should be conducted in compliance with all applicable regulatory and disclosure requirements of the countries in which they

operate.

**Principle 15 Implementation:**

The investment manager complies with CFA Institute's Code of Ethics and Standards, which state that they must comply with the stricter of the local regulatory requirements or the institute's code.

**Principle 16 Description:**

16. The governance framework and objectives, as well as the manner in which the SWF's management is operationally independent from the owner, should be publicly disclosed.

**Principle 16 Implementation:**

The fund is managed by a wholly owned Crown corporation which is overseen by an independent board of investment and business professionals.

<http://www.qp.alberta.ca/documents/Acts/A26p5.pdf> [6]

**Principle 17 Description:**

17. Relevant financial information regarding the SWF should be publicly disclosed to demonstrate its economic and financial orientation, so as to contribute to stability in international financial markets and enhance trust in recipient countries.

**Principle 17 Implementation:**

Annual reports are published on or before 30 June, following the fiscal year end of 31 March. The annual report includes audited financial statements. The quarterly report is reported with 60 days of the quarter-end and is published with interim financial statements. These interim statements are not audited. The reports are published and available on the Department's website.

<http://www.finance.alberta.ca/business/ahstf/> [2]

**Pillar 3**

**Investment and Risk Management Framework**

**Principle 18 Description:**

18. The SWF's investment policy should be clear and consistent with its defined objectives, risk tolerance, and investment strategy, as set by the owner or the governing body(ies), and be based on sound portfolio management principles.

18.1. The investment policy should guide the SWF's financial risk exposures and the possible use of leverage.

18.2. The investment policy should address the extent to which internal and/or external investment managers are used, the range of their activities and authority, and the process by which they are selected and their performance monitored.

18.3. A description of the investment policy of the SWF should be publicly disclosed.

**Principle 18 Implementation:**

The risk exposures and use of leverage are outlined in the Investment Policy. Leverage is commonly used to rebalance and manage risk in the portfolio. It is also used in asset classes such as real estate and private equity, where it is an integral part of the underlying strategy and is monitored.

The decision to use external managers is left up to province's investment manager AIMCo. AIMCo selects and monitors the performance of these investment managers.

The investment policy is publically available on the Heritage Fund's website.

<http://www.finance.alberta.ca/business/ahstf/heritage-fund-statement-investment-policy-and-goals.pdf> <sup>[5]</sup>

**Principle 19 Description:**

19. The SWF's investment decisions should aim to maximize risk-adjusted financial returns in a manner consistent with its investment policy, and based on economic and financial grounds.

19.1. If investment decisions are subject to other than economic and financial considerations, these should be clearly set out in the investment policy and be publicly disclosed.

19.2. The management of an SWF's assets should be consistent with what is generally accepted as sound asset management principles.

**Principle 19 Implementation:**

The AHSTF Act states that investments are to be made with the objective of maximising long-term financial returns. The responsibility for investment decisions has been delegated to AIMCo, which is a wholly owned crown corporation. The investment decisions are made autonomously with the view of meeting objectives set forth in the SIP&G. AIMCo is to invest the fund in accordance with the Statement of Investment Policy and Goals. As per the Act, "the Minister shall adhere to the investment and lending policies, standards and procedures that a reasonable and prudent person would apply in respect of a portfolio of investments to avoid undue risk of loss and obtain a reasonable return that will enable the Heritage Fund to meet its objectives."

**Principle 20 Description:**

20. The SWF should not seek or take advantage of privileged information or inappropriate influence by the broader government in competing with private entities.

**Principle 20 Implementation:**

The government created a crown corporation overseen by an independent board of directors. The government delegated investment decisions to them. The Minister appoints the board of directors of AIMCo but does not have any direct representation on the board.

**Principle 21 Description:**

21. SWFs view shareholder ownership rights as a fundamental element of their equity investments' value. If an SWF chooses to exercise its ownership rights, it should do so in a manner that is consistent with its investment policy and protects the financial value of its investments. The SWF should publicly disclose its general approach to voting securities of listed entities, including the key factors guiding its exercise of ownership rights.

**Principle 21 Implementation:**

The minister has delegated the responsibility for proxy voting to Alberta Investment Management Corporation. Voting shall be done in a prudent manner to enhance investment returns. AIMCo's proxy voting guidelines are public on their website: <https://www.aimco.alberta.ca/How-We-Think/Proxy-Voting> [7] as is their proxy voting record.

**Principle 22 Description:**

22. The SWF should have a framework that identifies, assesses, and manages the risks of its operations.

22.1. The risk management framework should include reliable information and timely reporting systems, which should enable the adequate monitoring and management of relevant risks within acceptable parameters and levels, control and incentive mechanisms, codes of conduct, business continuity planning, and an independent audit function.

22.2. The general approach to the SWF's risk management framework should be publicly disclosed.

**Principle 22 Implementation:**

Operational functions of the fund have been delegated to AIMCo. As the investment manager of the fund, they have the responsibility for managing operational risk. AIMCo has created a compliance manual that covers the operational risk management framework of the firm. The manual deals with identifying and monitoring risks, as well as setting the parameters and appropriate controls. This manual is shared with the clients of the AIMCo. Clients are made aware when any changes are made to the manual.

AIMCo publishes a section on risk in its operations in its annual report.

**Principle 23 Description:**



23. The assets and investment performance (absolute and relative to benchmarks, if any) of the SWF should be measured and reported to the owner according to clearly defined principles or standards.

**Principle 23 Implementation:**

Performance is measured and reported as detailed in the SIP&G.

**Principle 24 Description:**

24. A process of regular review of the implementation of the GAPP should be engaged in by or on behalf of the SWF.

**Principle 24 Implementation:**

This is the second Santiago Principles self-assessment. This review will be done on a regular basis and updated when warranted.

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**Links**

[1] <http://www.ifswf.org/node/443>

[2] <http://www.finance.alberta.ca/business/ahstf/>

[3] <http://www.ifswf.org/assessments>

[4] <http://www.qp.alberta.ca/documents/Acts/A23.pdf>

[5] <http://www.finance.alberta.ca/business/ahstf/heritage-fund-statement-investment-policy-and-goals.pdf>

[6] <http://www.qp.alberta.ca/documents/Acts/A26p5.pdf>

[7] <https://www.aimco.alberta.ca/How-We-Think/Proxy-Voting>