

Intelligence MEMOS



From: Ed Waitzer and Keith Ambachtsheer
To: Canadian Pension Observers
Date: November 25, 2024
Re: **ALBERTA PENSIONERS DESERVE BETTER ANSWERS ABOUT AIMCO PURGE**

The wholesale dismissal this month of AIMCo's highly respected board and senior management team is difficult to understand. The Alberta government has a lot of explaining to do, even after last week's reappointment of three directors and the installation of Stephen Harper as the new chair.

The Crown corporation suffered a serious investment-related loss in 2020 that prompted major actions by the province to strengthen AIMCo's board and senior management. Those changes are now in place. However, it will take time to assess the full impact of the 2021-2023 governance and management changes on the pension fund manager's organizational performance.

Meanwhile, we already know the actual AIMCo investment performance for the 2021-2023 period. It reported a three-year annualized net return of 5.8 per cent, against a benchmark return of 3.6 per cent if its investment policies had been passively implemented. This suggests that AIMCo's new board and management team were off to a strong start.

On the cost side, AIMCo's investment management plus operating costs were reported at 0.66 per cent of assets under management. The comparable numbers for Investment Management Corporation of Ontario (IMCO) and British Columbia Investment Management Corporation (BCI) were 0.81 per cent and 0.54 per cent respectively. This puts into question Alberta's cited rationale for sacking the board and senior management.

So, what exactly was the reason?

Was there something in AIMCo's benchmarking processes that triggered the government's sudden loss of confidence in the board and senior management team? Were fraud or major conflicts of interest detected? Were AIMCo's pension fund clients consulted, as would normally be required under investment management agreements? What makes the government think it can improve on the high quality of the board and executive team members it just fired?

That last question is especially problematic in an industry where trust, integrity, autonomy and in-house investment expertise have shown themselves to be important drivers of value creation.

Ironically, it was the rise of the globally admired Canadian pension model over the course of the past 30 years that drove these points home. Who wants to be associated today with a public pension overseen by a government that apparently does not respect these principles and appears comfortable making decisions that disrupt organizational integrity and, to date, defy common sense explanation?

With such an overhaul of the board and management, the cost for Albertans – in terms of ability to attract topflight people, co-investors and investment opportunities to the organization – is likely to be far more significant than the putative cost concerns that have been used to explain why it was time to “tear off the Band-Aid,” as Alberta Finance Minister Nate Horner put it.

Pension funds have an overriding duty to act in the interests of their beneficiaries. This requires a focus on long-term value creation (often the opposite of myopic political priorities). It is a higher standard than that which applies to corporate directors (even they are allowed to mediate the interests of shareholders and other stakeholders in determining the best interests of a corporation) and is singular in its focus on preserving trust property by risk mitigation and cautious investment.

The underlying concern from observers, of course, is that the government wants to put its hands in the cookie jar – directing investment decisions to satisfy political objectives. Premier Danielle Smith has talked about directing pension funds to invest more in oil, and now a government deputy minister has been given a permanent board seat. Is this what's going on here?

Given that the future of \$169 billion of pension and endowment savings are at stake, the government owes Albertans clear answers to the list of questions posed above – answers supported by independently sourced benchmarking information on pension fund returns and management costs.

Alberta should also provide assurances as to the integrity and independence of future governance and investment decision-making in the interests of the beneficiaries AIMCo serves.

Ed Waitzer is a lawyer and a senior fellow at the C.D. Howe Institute and Keith Ambachtsheer is director emeritus of the International Centre for Pension Management, senior fellow at the National Institute on Ageing and executive in residence at the Rotman School of Management.

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