



Freedom To Create. Spirit To Achieve.

Alberta Heritage Savings Trust Fund

First Quarter
2009–2010

**Government
of Alberta** ■



Heritage Fund

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Additional copies of this quarterly report on the Heritage Fund may be obtained by:

Visiting our website at: www.finance.alberta.ca

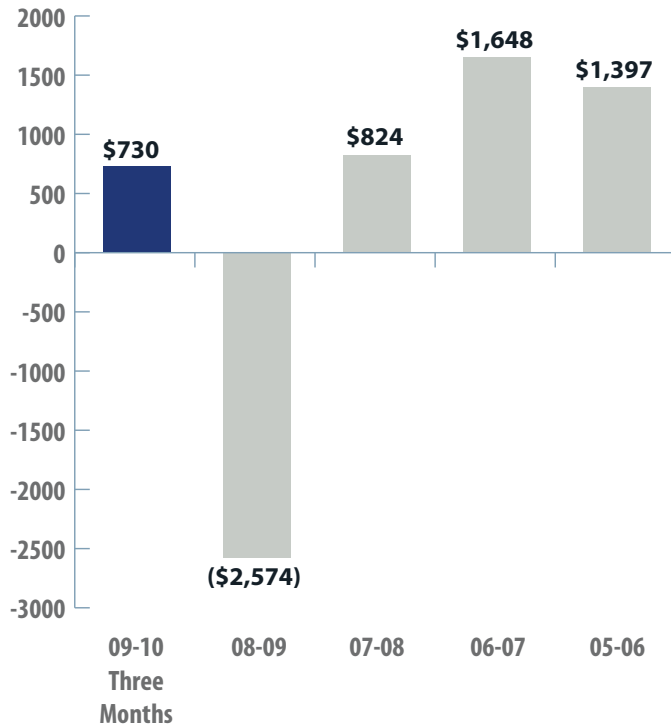
Or by writing:
Alberta Heritage Savings Trust Fund
Room 434, 9515 – 107 Street
Edmonton, Alberta, T5K 2C3

Or by calling: (780) 427-5364

TOPLINE RESULTS

NET INCOME (LOSS)

fiscal years ending on March 31 (in millions)



Equity markets rose significantly in the first quarter of fiscal 2009-10. As a result, the Heritage Fund (the Fund) earned better than expected net investment income of \$730 million.

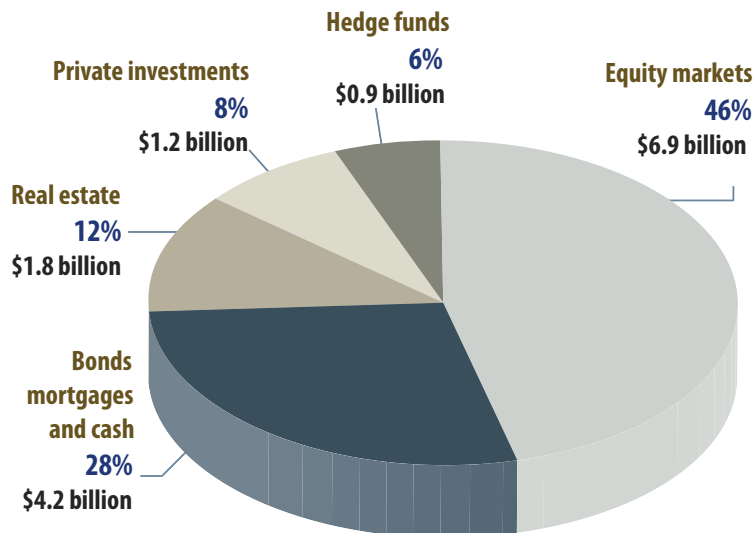
» Under legislation, the net income reported in the financial statements, less an amount retained for inflation-proofing, is payable to the General Revenue Fund (the GRF). Since inflation is forecast to be negative for fiscal 2009-10, there is no amount retained in the Fund for inflation-proofing.

As part of its risk management strategy, the Fund has a diversified portfolio of investments.

A large portion of the Fund's investments are invested in public equity markets, which returned approximately 14% this quarter.

INVESTMENTS

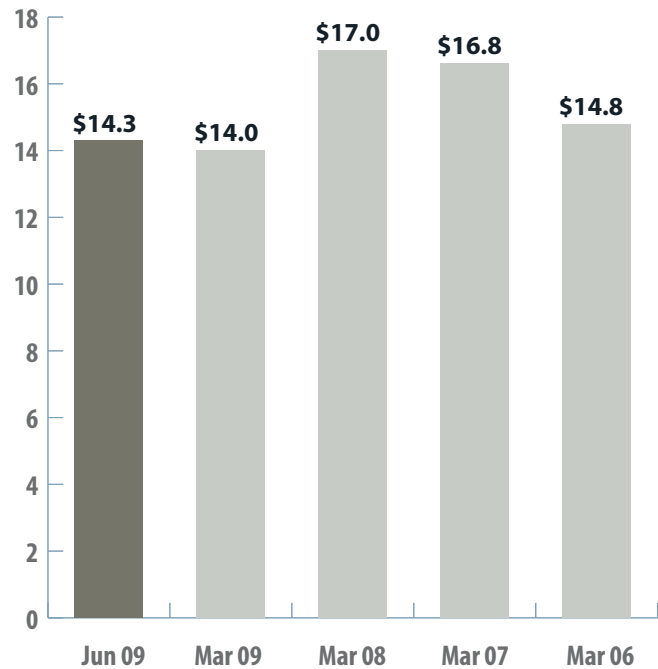
June 30, 2009



TOPLINE RESULTS

VALUE OF THE HERITAGE FUND

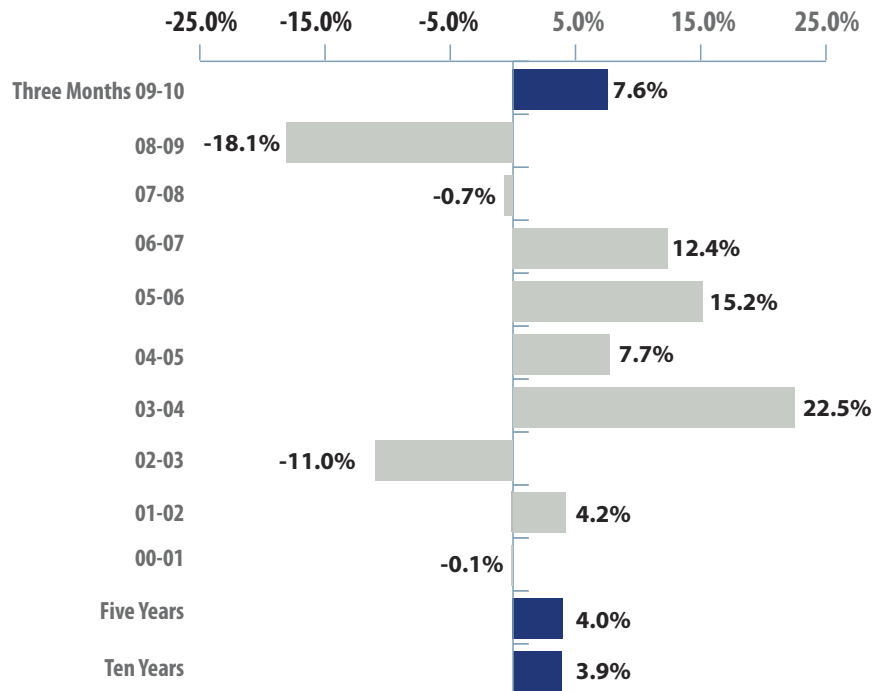
(in billions)



At June 30, 2009, the value of the Fund's net assets totalled \$14.3 billion, a net increase of \$328 million from \$14.0 billion at March 31, 2009.

On a fair value basis, the Fund's investments earned \$1.058 billion this quarter, or 7.6%, which includes net income of \$730 million and an increase in unrealized portfolio gains of \$328 million. Offsetting this increase are transfers payable to the GRF of \$730 million.

INVESTMENT RETURNS



This quarter's investment return of 7.6% exceeded the benchmark of 7.3%.

Over five and ten years the Fund's average annual return was 4.0% and 3.9% respectively*.

The expected long-term return for the Fund is inflation* plus 4.5%. In addition, as set out in the Fund's business plan, it is expected that a further 1.0% of value will be added through active management.

* Over the past ten years, inflation has averaged 2.1% per annum based on the Consumer Price Index (CPI).

First Quarter Update

(April 1, 2009 to June 30, 2009)

At the start of the 2009-10 fiscal year, the annual net income of the Fund was forecast to be \$711 million. However, with the strong growth in equity markets in the first quarter, the actual net income over the past three months totalled \$730 million, which surpassed the Fund's entire annual budget by \$19 million. Subsequently, the forecast net income for fiscal 2009-10 has been updated to \$1.340 billion. Under legislation, a portion of the Fund's net income must be retained in the Fund for inflation-proofing. However, since inflation is currently forecast to be negative for fiscal 2009-10, no amount was retained in the Fund and all of the net income has been recorded as a payable to the GRF.

At June 30, 2009, the net assets held in the Fund totaled \$13.838 billion, at cost, and \$14.308 billion, at fair value. The Fund's cost primarily includes the purchase price of the various assets adjusted for writedowns. The Fund's fair value represents what those assets would be worth if sold.

The difference between the Fund's cost and fair value of net assets represents unrealized gains. Unrealized portfolio gains represent the profit that would be made if the assets were sold. At June 30, 2009, net unrealized capital gains increased \$328 million to \$470 million from \$142 million at the beginning of the year. Including the increase in unrealized gains, the net income, on a fair value basis, was \$1.058 billion.

The Fund's market return this quarter was 7.6% compared to 0.6% for the same period last year. Approximately 73% of the Fund's net income came from investments in publicly traded equities which were positively impacted by the strong gain in world equity markets.

The table below summarizes the overall change in the net assets of the Fund.

Changes in Net Assets (in millions)

	Budget	Actual	
	Fiscal Year	For the three months ended	
	2009-10	June 30, 2009	June 30, 2008
Investment income	\$ 778	\$ 748	\$ 171
Investment expenses	(67)	(18)	(16)
Net income *	711	730	155
Transfers to the General Revenue Fund	(711)	(730)	(24)
Income retained in Fund for inflation-proofing	-	-	131
Cost of net assets, beginning of period	13,928	13,838	16,412
Cost of net assets, end of period	\$ 13,928	\$ 13,838	\$ 16,543
Accumulated unrealized gains		470	586
Fair value of net assets, end of period		\$ 14,308	\$ 17,129

* Based on first quarter results , the forecast net income for fiscal year 2009-10 has been updated to \$1.340 billion.

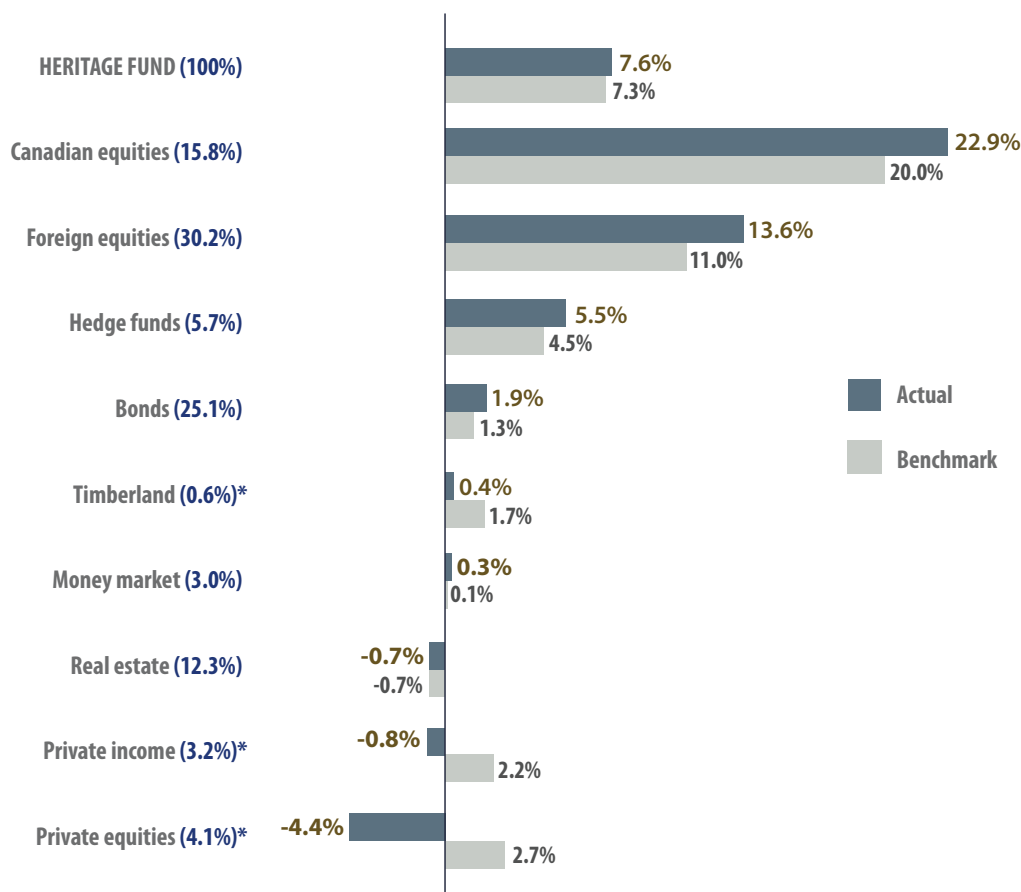
INVESTMENT MANAGEMENT PERFORMANCE

The Fund's actual investment return for each asset class, such as bonds or Canadian equities, is compared to a market-based benchmark such as the DEX Universe Bond Index or the S&P/TSX Total Return Index. The purpose of this comparison is to measure the value added or lost from investment management decisions made by Alberta Investment Management Corporation (AIMCo). The overall actual return of the Fund is compared to the overall benchmark policy return. The overall benchmark is determined by multiplying the benchmark return for each asset class by its percentage of the Fund's total portfolio. The overall policy benchmark return this quarter was 7.3%.

AIMCo out-performed its overall policy benchmark return this quarter. The Fund's actual return of 7.6% was 0.3%, or \$40 million, greater than the overall policy benchmark 7.3%. This quarter, AIMCo out-performed the Fund's benchmark in bonds, foreign equities, Canadian equities, hedge funds and money market securities while under-performing the benchmarks in private income*, private equities* and timberland*. Canadian equities, which comprise 15.8% of the Fund's investment portfolio, had the highest return of all asset classes, earning 22.9% compared to the benchmark of 20.0%. The actual foreign equity return of 13.6% did well against its benchmark of 11.0%. Foreign equity returns were lower overall due to the stronger Canadian dollar against the U.S. dollar. At June 30, 2009, one U.S. dollar was worth \$1.17 Canadian compared to \$1.26 Canadian at March 31, 2009.

In the chart below, the horizontal bars compare the actual return against the benchmark return. The asset class and its percent of the total Fund is shown on the left.

Comparison of Actual Returns to Benchmark Returns (in percent)
Three months ended June 30, 2009



* These benchmark returns include inflation plus 1.0% per quarter for Timberland, 1.5% per quarter for private income and 2.0% per quarter for private equities.

INVESTMENT INCOME

The table below shows the actual net income reported in the financial statements by asset class and by the type of income or loss. The investments and investment income are recorded in the financial statements on a cost basis, which exclude unrealized gains and losses.

Summary of net income, by asset class and type

For the three months June 30, 2009

(in millions)

Asset class	Net realized gain on				Total net Income
	Income (1)	investments (2)	Expenses (3)	Writedowns (4)	
	(\$ millions)				
Public equities	\$ 55	\$ 492	\$ (6)	\$ (4)	\$ 537
Fixed income securities	55	17	(1)	-	71
Real estate	18	35	(2)	-	51
Private income	5	15	(2)	-	18
Hedge funds	3	64	(2)	(3)	62
Timberland	-	6	-	-	6
Private equity	8	-	(5)	(18)	(15)
Total - 2009	\$ 144	\$ 629	\$ (18)	\$ (25)	730
Total - 2008	\$ 163	\$ 84	\$ (16)	\$ (76)	155

- (1) Income includes interest, dividends, rental income and security lending income. Income from interest and dividends are down from 2008 due to declining interest rates and a restructuring of equities in pooled funds.
- (2) Net realized gains on investments are up from 2008 due to a strong rebound in world equity markets this quarter.
- (3) The increase in expenses from 2008 is due to an increase in externally managed fees associated with private income and private equity investments.
- (4) The cost of securities is written down where the market value has declined significantly below cost and the decline is not considered temporary. Writedowns are down compared to 2008 due to the increase in value of public equities.

The table below shows the net income or loss of the Fund, on a cost and fair value basis, for each asset class. The fair value of investments provides information to assess the investment performance of the Fund against market-based benchmarks. Investment income on a fair value basis includes changes in unrealized gains (losses). On a fair value basis, the Fund recorded a net gain of \$1,058 million for the three months ended June 30, 2009, compared to a gain of \$109 million for the same period last year.

Summary of net investment income (loss) at cost and fair value

For the three months ended June 30, 2009

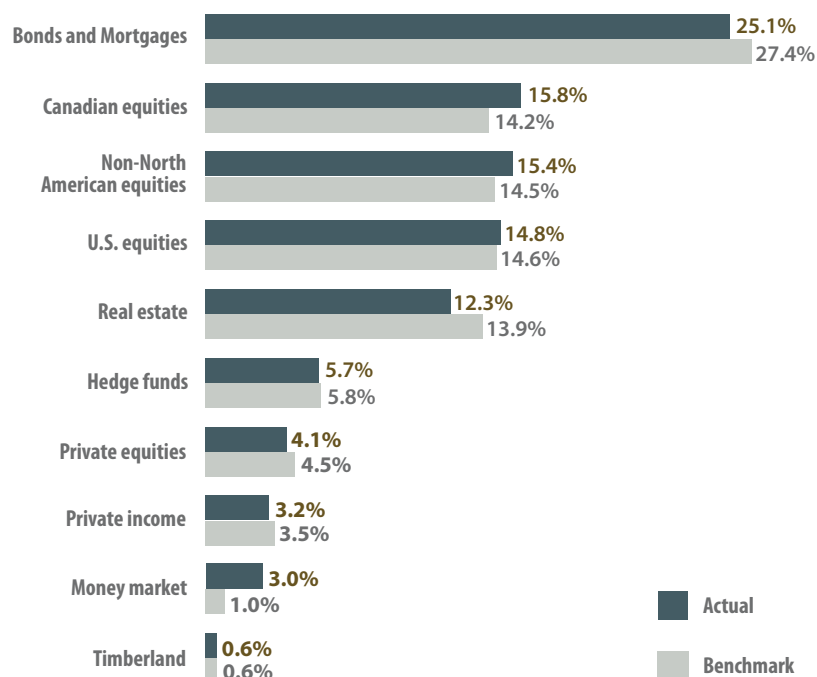
(in millions)

	Net income (loss) cost basis		Increase (decrease) in unrealized gains		Income (loss) fair value basis	
	2009	2008	2009	2008	2009	2008
Canadian equities	\$ 224	\$ 160	\$ 221	\$ 82	\$ 445	\$ 242
U.S. equities	207	(70)	(6)	12	201	(58)
Non-North American equities	106	(29)	209	(28)	315	(57)
Bonds and mortgages	71	52	23	(112)	94	(60)
Hedge Funds	62	16	(17)	(10)	45	6
Real estate	51	21	(64)	14	(13)	35
Private income	18	3	(12)	17	6	20
Timberland	6	1	(5)	1	1	2
Private equity	(15)	1	(21)	(22)	(36)	(21)
Investment income (loss)	730	155	328	(46)	1,058	109

INVESTMENTS

The chart on the right shows the changes in the Fund's asset mix from March 31, 2009 to June 30, 2009.

Due to the strong growth in world equity markets this quarter, investments in public equities in Canada, the U.S. and outside North America made up a larger proportion of the Fund's investments relative to other asset classes. Bonds, mortgages, real estate and private investments comprised a smaller proportion of the Fund's assets compared to the beginning of the quarter.



The table below shows the fair value and cost of each asset class and the unrealized gain or loss at June 30, 2009, and March 31, 2009. Unrealized gains and losses represent the difference between the fair value and cost of the investment. Once securities are sold, unrealized gains or losses become realized and are included in investment income for the year. At June 30, 2009, the pool of unrealized gains had increased to \$470 million, up \$328 million from \$142 million at the beginning of the fiscal year. Most of the unrealized gains held in real estate and U.S. equities were offset by unrealized losses primarily from bonds and mortgages and non-North American equities.

Summary of Net Assets

At June 30, 2009

(in millions)

	June 30, 2009			March 31, 2009		
	Fair Value	Cost	Unrealized gain (loss)	Fair Value	Cost	Unrealized gain (loss)
Investments:						
Bonds and mortgages	\$ 3,767	\$ 3,910	\$ (143)	\$ 3,832	\$ 3,998	\$ (166)
Canadian equities	2,383	2,386	(3)	1,981	2,205	(224)
Non-North American equities	2,307	2,410	(103)	2,020	2,332	(312)
U.S. equities	2,223	2,004	219	2,044	1,819	225
Real estate	1,840	1,314	526	1,935	1,345	590
Hedge Funds	858	844	14	813	782	31
Private income	487	509	(22)	483	484	(1)
Private equities	612	649	(37)	625	650	(25)
Money market	449	448	1	138	137	1
Timberland	92	74	18	90	67	23
Total Investments	15,018	14,548	\$ 470	13,961	13,819	\$ 142
Accounts (payable) receivable, net (1)	(710)	(710)		19	19	
Net assets	\$ 14,308	\$ 13,838		\$ 13,980	\$ 13,838	

(1) At June 30, 2009, includes \$730 million payable to the GRF (March 31, 2009: \$Nil) and net investment related receivables of \$20 million (March 31, 2009: \$19 million).

INVESTMENT EXPENSES

The day-to-day investment services for the Fund are provided by the Alberta Investment Management Corporation (AIMCo), a provincial corporation in the Ministry of Finance and Enterprise. AIMCo invests the assets subject to legislation and the investment policies approved by the Minister of Finance and Enterprise. AIMCo manages the majority of the Fund's investments through pooled investment funds. While most of the investments are managed directly by AIMCo, some investments are managed by third party investment managers selected and monitored by AIMCo in order to achieve greater diversification, access external expertise and specialized knowledge and to reduce operational complexity.

Investment expenses include those costs and fees incurred to earn investment income of the Fund. Investment services provided directly by AIMCo are charged to the Fund and to pooled funds on a cost recovery basis. Investment services provided by external managers are charged to pooled funds based on a percentage of net assets under management at fair value or committed amounts. Fees charged by external managers include primarily regular management fees and performance/incentive based fees to the extent recognized. Investment services include daily trading of securities, portfolio research and analysis, custody of securities, valuation of securities, performance measurement, maintenance of investment systems and internal audit.

The Department of Finance and Enterprise provides investment accounting and reporting for the Fund, investment policy oversight and treasury management services. A portion of these costs is charged to the Fund.

Investment expenses as a percentage of net assets are provided below. The increase in expenses primarily relates to a greater allocation of assets to investment products like private income and private equity investments which are more expensive to administer.

Investment expenses

For the three months ended June 30, 2009

(in millions)

	2009	2008
Private income and private equities	\$ 7	\$ 5
Public equities	6	6
Hedge funds	2	2
Real estate	2	2
Fixed income securities	1	1
Total investment expenses	\$ 18	\$ 16
Expenses as a percent of net assets at fair value	0.13%	0.09%

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ALBERTA HERITAGE SAVINGS TRUST FUND

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2009 (unaudited)

(in millions)

	June 30, 2009	March 31, 2009
Assets		
Portfolio investments (Note 3)	\$ 14,548	\$ 13,819
Receivable from sale of investments and accrued income	20	20
	\$ 14,568	\$ 13,839
Liabilities		
Due to the General Revenue Fund	\$ 730	\$ -
Administration expense payable	-	1
	730	1
Net Assets (Note 6)	13,838	13,838
	\$ 14,568	\$ 13,839

ALBERTA HERITAGE SAVINGS TRUST FUND

STATEMENT OF OPERATIONS AND NET ASSETS

FOR THE THREE MONTHS ENDED JUNE 30, 2009 (unaudited)

(in millions)

	Three Months Ended June 30,	
	2009	2008
Investment income (Note 7)	\$ 748	\$ 171
Investment expenses (Note 8)	(18)	(16)
Net income	730	155
Transfers to the General Revenue Fund (Note 6b)	(730)	(24)
Amount retained for inflation-proofing (Note 6b)	-	131
Net Assets at beginning of period	13,838	16,412
Net Assets at end of period	\$ 13,838	\$ 16,543

The accompanying notes and schedules are part of these financial statements.

ALBERTA HERITAGE SAVINGS TRUST FUND
STATEMENT OF CASH FLOWS
 FOR THE THREE MONTHS ENDED JUNE 30, 2009 (unaudited)
 (in millions)

	Three Months Ended June 30,	
	2009	2008
Operating transactions		
Net income	\$ 730	\$ 155
Non-cash items included in net income	(15)	(11)
	715	144
Increase in accounts receivable	-	(12)
Decrease in accounts payable	(1)	(49)
Cash provided by operating transactions	714	83
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	632	124
Purchase of investments	(1,221)	(372)
Cash applied to investing transactions	(589)	(248)
Transfers		
Transfers to the General Revenue Fund	(730)	(24)
Increase in amounts due to the General Revenue Fund	730	24
Cash applied to transfers	-	-
Increase (decrease) in cash	125	(165)
Cash at beginning of period	100	217
Cash at end of period	\$ 225	\$ 52
Consisting of Deposits in the Consolidated Cash Investment Trust Fund (Note 3)	\$ 225	\$ 52

The accompanying notes and schedules are part of these financial statements.

ALBERTA HERITAGE SAVINGS TRUST FUND
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 (Unaudited)
(in millions)

NOTE 1 AUTHORITY AND MISSION

The Alberta Heritage Savings Trust Fund operates under the authority of the *Alberta Heritage Savings Trust Fund Act (the Act)*, Chapter A-23, Revised Statutes of Alberta 2000, 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 recommendations of the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants are the primary source for the disclosed basis of accounting.

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

(a) Portfolio Investments

Fixed-income securities, mortgages, equities, real estate investments, absolute return strategies and timberland investments held directly by the Fund or by pooled investment funds are recorded at cost. Cost includes the amount of applicable amortization of discount or premium using the straight-line method over the life of the investments.

Investments in loans are recorded at cost less any allowance for credit loss. Where there is no longer reasonable assurance of timely collection of the full amount of principal and interest of a loan, a specific provision for credit loss is made and the carrying amount of the loan is reduced to its estimated realizable amount.

Investments are recorded as of the trade date.

The cost of disposals is determined on the average cost basis.

Where there has been a loss in value of an investment that is other than a temporary decline, the investment is written down to recognize the loss. The written down value is deemed to be the new cost.

(b) Investment Income and Expenses

Investment income and expenses, as reported in Notes 7 and 8, are recorded on the accrual basis. Investment income is accrued when there is reasonable assurance as to its measurement and collectability. When a loan becomes impaired, recognition of interest income in accordance with the terms of the original loan agreement ceases. Any subsequent payments received on an impaired loan are applied to reduce the loan’s book value. For certain investments such as private equities, private income, private real estate, absolute return strategies and timberland investments, the actual income and expenses may not be known at the time the financial statements are prepared. In these cases, estimates may be used, which may vary from actual income and expenses.

Net realized gains and losses arising as a result of disposals of investments, including those arising from derivative transactions, are included in the determination of investment income.

Changes in fair value of derivative contracts are included in investment income except for certain derivative contracts designated as hedges of market risks for purposes of hedge accounting. Hedge accounting recognizes gains and losses from derivatives in the statement of income in the same period as the gains and losses of the security being hedged.

Where a hedge relationship is designated, the hedge is documented at inception. The documentation identifies the specific asset being hedged, the risk that is being hedged, type of derivative used and the matching of critical terms of both the hedged security and the hedging derivative for purposes of measuring effectiveness. The derivative must be highly effective in accomplishing the objective of offsetting either changes in the fair value or cash flows attributable to the risk being hedged both at inception and over the life of the hedge. When the derivative no longer qualifies as an effective hedge, the hedge accounting is discontinued prospectively. If hedge accounting is discontinued, gains and losses resulting from the changes in fair value of the derivative contract are recognized in income immediately.

(c) Foreign Currency

Foreign currency transactions 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 period end exchange rates. Exchange differences on transactions are included in the determination of investment income.

(d) Investment Valuation

Portfolio investments are recorded in the financial statements at cost. The fair value of investments is provided for information purposes and is disclosed in Note 3.

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.

Measurement uncertainty exists in the fair values reported for certain investments such as private equities, private income, private real estate, loans, absolute return strategies and 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 realized upon immediate sale, nor amounts that ultimately may be realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments.

Fair value of investments held either directly by the Fund or by pooled investment funds are determined as follows:

- (i) Public fixed-income securities and 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.
- (ii) Mortgages and private fixed-income securities are valued based on the net present value of future cash flows. These cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market.
- (iii) The fair value of private equities is estimated by managers or general partners of private equity funds, pools and limited partnerships. Valuation methods 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.
- (iv) The estimated fair value of 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 the discounted cash flows.
- (v) The fair value of Absolute Return Strategy Pool investments is estimated by external managers.
- (vi) The fair value of loans is estimated by management based on the present value of discounted cash flows.
- (vii) The fair value of timberland investments is appraised annually by independent third party evaluators.
- (viii) The fair value of deposits, receivables, accrued interest and payables is estimated to approximate their book values.

(e) Valuation of Derivative Contracts

Derivative contracts include equity and bond index swaps, interest rate swaps, cross-currency interest rate swaps, credit default swaps, forward foreign exchange contracts, equity index futures contracts and swap option contracts. As disclosed in Note 4, the value of derivative contracts is included in the fair value of pooled investment funds. The estimated fair value of derivative contracts at the reporting date is determined by the following methods:

- (i) Equity and bond index swaps are valued based on changes in the appropriate market-based index net of accrued floating rate interest.
- (ii) Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates.
- (iii) Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities.
- (iv) Forward foreign exchange contracts and futures contracts are valued based on quoted market prices.
- (v) 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.

NOTE 3 PORTFOLIO INVESTMENTS (in millions)

	June 30, 2009			March 31, 2009		
	Cost	Fair Value	%	Cost	Fair Value	%
Cash and Absolute Return Strategies						
Money Market						
Deposit in the Consolidated Cash						
Investment Trust Fund (a)	\$ 225	\$ 225	1.5	\$ 100	\$ 100	0.7
Currency Alpha Pool (b)	27	28	0.2	28	29	0.2
Tactical Asset Allocation Pool	8	8	0.1	9	9	0.1
Notional Cash Overlay Strategy (g)	188	188	1.2	-	-	-
	448	449	3.0	137	138	1.0
Absolute Return Strategies (c)	844	858	5.7	782	813	5.8
Fixed-Income Securities						
Universe Fixed Income Pool (d)	3,448	3,325	22.2	3,502	3,343	23.9
Private Mortgage Pool (e)	702	682	4.5	702	697	5.0
Loans, directly held (f)	137	137	0.9	137	137	1.0
Fixed Income Futures Overlay Strategy (g)	(377)	(377)	(2.5)	(343)	(345)	(2.5)
	3,910	3,767	25.1	3,998	3,832	27.4
Inflation Sensitive						
Real Estate						
Private Real Estate Pool (h)	1,206	1,723	11.5	1,246	1,818	13.0
Foreign Private Real Estate Pool (i)	108	117	0.8	99	117	0.9
	1,314	1,840	12.3	1,345	1,935	13.9
Private Income (j)	509	487	3.2	484	483	3.5
Timberland (k)	74	92	0.6	67	90	0.6
Equities						
Canadian						
North American Concentrated Equity Pool (l)	466	509	3.4	-	-	-
Canadian Multi-Cap Pool (m)	520	509	3.4	518	482	3.4
Canadian Large Cap Equity Pool (n)	536	502	3.3	262	177	1.3
Canadian Structured Equity Pool (o)	426	386	2.6	419	355	2.5
Canadian Equity Enhanced Index Pool (p)	302	322	2.1	260	234	1.7
Canadian Minimum Variance Pool (q)	136	155	1.0	-	-	-
Canadian Pooled Equity Fund	-	-	-	65	58	0.4
Growing Equity Income Pool	-	-	-	505	496	3.6
Canadian Equity Overlay Strategy Pool (g)	-	-	-	176	179	1.3
	2,386	2,383	15.8	2,205	1,981	14.2
United States						
US Structured Equity Pool (r)	1,167	1,380	9.2	1,023	1,226	8.8
US Small/Mid Cap Equity Pool (s)	258	262	1.7	256	243	1.7
Portable Alpha United States Equity Pool (t)	569	570	3.8	495	533	3.8
North American Concentrated Equity Pool (l)	10	11	0.1	-	-	-
Growing Equity Income Pool	-	-	-	12	9	0.1
US Equity Overlay Strategy Pool (g)	-	-	-	33	33	0.2
	2,004	2,223	14.8	1,819	2,044	14.6
Non-North American						
EAFE Active Equity Pool (u)	1,627	1,555	10.4	1,618	1,356	9.7
EAFE Structured Equity Pool (v)	461	437	2.9	386	355	2.6
EAFE Equity Index Swap Overlay Strategy (g)	254	254	1.7	261	261	1.9
Emerging Markets Equity Pool (w)	68	61	0.4	67	48	0.3
	2,410	2,307	15.4	2,332	2,020	14.5
Private Equities (j)	649	612	4.1	650	625	4.5
Total Investments (x)	\$ 14,548	\$ 15,018	100.0	\$ 13,819	\$ 13,961	100.0

Note 3 (cont'd)

The majority of the Fund's investments are held in pooled investment funds established and administered by Alberta Finance and Enterprise. Pooled investment funds have a market based unit value that is used to allocate income to participants and to value purchases and sales of pool units. As at June 30, 2009, the Fund's percentage ownership, at market, in pooled investment funds is as follows:

	% Ownership	
	June 30, 2009	March 31, 2009
Absolute Return Strategy Pool	86.3	84.2
Canadian Equity Enhanced Index Pool	83.4	80.6
Canadian Equity Overlay Strategy Pool	61.4	35.8
Canadian Large Cap Equity Pool	34.9	13.6
Canadian Minimum Variance Pool	48.0	-
Canadian Multi-Cap Pool	41.9	48.3
Canadian Pooled Equity Fund	46.1	53.9
Canadian Structured Equity Pool	42.1	43.8
Currency Alpha Pool	37.2	37.2
EAFE Active Equity Pool	30.4	30.8
EAFE Equity Overlay Strategy Pool	38.4	35.8
EAFE Structured Equity Pool	42.4	41.8
Emerging Markets Equity Pool	16.9	22.1
Fixed Income Overlay Strategy Pool	69.0	35.8
Foreign Private Equity Pool (02)	87.5	87.5
Foreign Private Equity Pool (05)	87.3	87.3
Foreign Private Real Estate Pool	84.3	87.2
Global Private Equity Pool (07)	85.2	85.2
Global Private Equity Pool (08)	88.2	88.2
Growing Equity Income Pool	49.1	53.4
North American Concentrated Equity Pool	49.1	-
Portable Alpha United States Equity Pool	82.5	80.0
Private Equity Pool	-	13.6
Private Equity Pool (02)	88.7	88.8
Private Equity Pool (04)	89.0	89.0
Private Equity Pool (98)	100.0	100.0
Private Income Pool	88.6	88.6
Private Income Pool 2	86.7	86.7
Private Income Pool 3	60.9	-
Private Mortgage Pool	35.0	33.9
Private Real Estate Pool	34.1	35.3
Tactical Asset Allocation Pool	83.0	82.1
Timberland Pool	87.6	87.6
US Overlay Strategy Overlay Pool	35.8	35.8
US Small/Mid Cap Equity Pool	23.2	23.0
US Structured Equity Pool	45.9	42.5
Universe Fixed Income Pool	43.2	45.6

- (a) The Consolidated Cash Investment Trust Fund is managed with the objective of providing competitive interest income to depositors while maintaining appropriate security and liquidity of depositors' capital. The portfolio is comprised of short-term and mid-term fixed-income securities with a maximum term-to-maturity of three years. As at June 30, 2009, securities held by the Fund have a time-weighted return of 2.7% per annum (March 31, 2009: 3.0% per annum).
- (b) The Currency Alpha Pool is managed with the objective of providing a fair return over a four-year moving period while reducing return volatility through multiple manager investment style and strategies. The return is achieved through active currency management with currency positions established primarily through forward foreign exchange contracts. Participants deposit into the Pool a modest amount of cash to minimize rebalancing of cash flows in or out of the Pool when the forward foreign exchange contracts settle.
- (c) The Absolute Return Strategy Pool is managed with the objective of providing investment returns higher than the Hedge Fund Research Inc. Global Index. The Pool uses external managers who employ various investment strategies. These strategies are expected to produce absolute positive investment returns with lower volatility.

- (d) The Universe Fixed Income Pool is managed with the objective of providing above average returns compared to the total return of the DEX Universe Bond Index over a four-year period while maintaining adequate security and liquidity of participants' capital. The excess return is achieved through management of portfolio duration and sector rotation. The portfolio is comprised of high quality Canadian fixed-income instruments and debt related derivatives, including obligations related to securities sold under repurchase agreements. As at June 30, 2009, securities held by the Pool have an average effective market yield of 5.3% per annum (March 31, 2009: 7.4% per annum) and the following term structure based on principal amount: under 1 year: 4% (March 31, 2009: 6%); 1 to 5 years: 36% (March 31, 2009: 36%); 5 to 10 years: 30% (March 31, 2009: 28%); 10 to 20 years: 16% (March 31, 2009: 16%); and over 20 years: 14% (March 31, 2009: 14%).
- (e) The Private Mortgage Pool is managed with the objective of providing investment returns higher than attainable from the DEX Universe Bond Index over a four-year period or longer. The portfolio is comprised primarily of high quality commercial mortgage loans (92.7%), specialty mortgages (2.1%) and provincial bond residuals (5.2%). To limit investment risk, mortgage loans are restricted to first mortgage loans, diversified by property usage and geographic location, and include a small portion of NHA insured loans. As at June 30, 2009, securities held by the Pool have an average effective market yield of 5.4% per annum (March 31, 2009: 5.0% per annum) and the following term structure based on principal amount: under 1 year: 2% (March 31, 2009: 2%); 1 to 5 years: 33% (March 31, 2009: 28%); 5 to 10 years: 46% (March 31, 2009: 50%); 10 to 20 years: 3% (March 31, 2009: 3%); and over 20 years: 16% (March 31, 2009: 17%).
- (f) As at June 30, 2009, investment in loans, excluding accrued interest, includes the Ridley Grain loan amounting to \$134 million (March 31, 2009: \$134 million) and the Vencap loan amounting to \$2.9 million (March 31, 2009: \$2.8 million).
- Under the terms of the loan to Ridley Grain, 11% Participating First Mortgage Bonds due July 31, 2015, interest is compounded semi-annually and payable annually to the extent of available cash flow and any shortfall is to be deferred and capitalized. The principal of \$134 million and deferred interest is repayable on or before July 31, 2015. Deferred interest at June 30, 2009 amounted to \$43.5 million (March 31, 2009: \$43.5 million). Grain throughput volumes are the main determinant of profitability of the grain terminal and the value of the loan to the Fund. Due to the uncertainty of forecasting the grain throughput volumes, income from the participating bonds is recognized when it is measurable and collectable.
 - The principal amount of the Vencap loan, amounting to \$53 million, is due July 2046 and bears no interest. The increase in the carrying value of the Vencap loan resulted from amortization of the loan on a constant yield basis.
- (g) The Overlay Strategy Pools provide participants with a quick, effective and efficient way to gain interim exposure to a major asset class by altering the portfolio weights of broad asset classes using synthetic instruments. The asset classes that can be replicated in the overlay program include fixed income securities, Canadian equities, U.S. equities, EAFE equities, major foreign currencies and styles and sectors. At June 30, 2009, the overlay strategy pools consisted of cash and cash equivalents which support approximately 5% to 10% of the Pool's notional exposure through futures and swap contracts.
- (h) The Private Real Estate Pool is managed with the objective of providing investment returns higher than the IPD Large Institutional All Property Index. Real estate is held through intermediary companies, which have issued, to the Pool, common shares and participating debentures secured by a charge on real estate. Risk is reduced by investing in properties that provide diversification by geographic location, by property type and by tenancy. As real estate returns are positively correlated to inflation and negatively correlated to returns from fixed income securities and equities, the Pool provides diversification from the securities market with opportunities for high return.
- (i) The Foreign Private Real Estate Pool is managed with the objective of providing investment returns higher than the IPD Large Institutional All Property Index. The Pool provides diverse exposure to non-domestic real estate by investing in foreign real estate backed securities and assets.
- (j) The Private Income Pools invest in infrastructure related projects that are structured to yield high current income with the objective of providing investment returns higher than the Consumer Price Index (CPI) plus 6.0%. Private Equity Pools are managed with the objective of providing investment returns higher than CPI plus 8.0%. The Private Equity Portfolio consists of the Private Equity Pool 98, PEP02, PEP04, the Foreign Private Equity Pool 2002, the Foreign Private Equity Pool 2005, the Global Private Equity Pool 2007 and the Global Private Equity Pool 2008. Private equity investments are held in institutionally sponsored private equity pools. Risk is reduced by avoiding direct investments in private companies and by limiting holdings in any single pool.
- (k) The Timberland Pool provides high current income and long investment horizons. The timberland investment is primarily a partnership interest in forestry land and land held for higher and better use located in British Columbia. The performance objective is to earn a return higher than CPI plus 4%.
- (l) The North American Concentrated Equity Pool allows participants the opportunity to gain exposure to a concentrated portfolio of Canadian and American public companies, providing investment returns comparable to the total return of the S&P/TSX Composite Index. The pool will generally hold larger positions (from 5% to 20% of outstanding shares) in between 15 and 25 mid-sized public companies, and has a longer-term investment

strategy. Assets from the Growing Income Equity Pool were transferred to the North American Concentrated Equity Pool on June 30, 2009.

- (m) The Canadian Multi-Cap Pool allows participants to gain investment exposure to the Canadian equity market through internally managed structured investments replicating the S&P/TSX 60 Index and external actively managed Canadian small and mid cap investments. The performance of the pool is measured against the total return of the S&P/TSX Composite Index over a four-year moving average period. The Pool's investment in units of the Floating Rate Note Pool (FRNP) is used as the underlying securities to support the index swaps of the pool. FRNP is managed with the objective of generating floating rate income needed for the swap obligations in respect of structured investments in foreign equities, domestic equities and domestic bonds. Through the use of interest rate swaps, FRNP provides investment opportunities in high quality floating-rate instruments with remaining term-to-maturity of five years or less.
- (n) The Canadian Large Cap Equity Pool consists of multiple portfolios of publicly traded Canadian equities. The portfolios are actively managed by external managers with expertise in the Canadian large cap equity market. The performance objective is to provide returns higher than the total return of the S&P/TSX Composite Index over a four-year period. Return volatility is reduced through multiple manager investment style and market capitalization focus.
- (o) The Canadian Structured Equity Pool is managed on a passive approach with the objective of providing investment returns comparable to the Toronto Stock Exchange S&P/TSX Composite Index. The portfolio is comprised of publicly traded Canadian equities and structured investments replicating the S&P/TSX 60 Index. The Pool's investment in units of the FRNP is used as the underlying securities to support the index swaps of the pool (see Note 3(m)).
- (p) The Canadian Equity Enhanced Index Pool allows participants the opportunity to gain investment exposure to the Canadian large cap equity market. The performance objective is to provide returns higher than the total return of the S&P/TSX Composite Index over a four-year moving average period. The portfolio is comprised of publicly traded equities in Canadian corporations. The enhanced index generates a consistent level of return above the Index with relatively low risk.
- (q) The Canadian Minimum Variance Pool provides exposure to the Canadian equity market through a quantitative, minimum variance implementation and is expected to provide returns comparable to the total return of the S&P/TSX Composite Index. This implementation aims to construct an equity portfolio which minimizes total volatility by holding lower risk, value oriented, smaller company stocks. Assets from the Canadian Pooled Equity Fund were transferred to the Canadian Minimum Variance Pool on May 29, 2009.
- (r) The U.S Structured Equity Pool is passively managed. The performance objective is to provide investment returns comparable to the total return of the S&P 500 Index. The pool utilizes synthetic replication strategies through futures, swaps and other structured investments to obtain exposure to the benchmark. The Pool's investment in units of the FRNP is used as the underlying securities to support the index swaps of the pool (see Note 3(m)).
- (s) The U.S. Small/Mid Cap Equity Pool consists of multiple portfolios of publicly traded U.S. equities. The portfolios are actively managed by external managers with expertise in the small cap and mid cap U.S. equity market. The performance objective is to provide returns higher than the total return of the Russell 2500 Index over a four-year period.
- (t) The Portable Alpha United States Equity Pool consists of futures and swap contracts which provide exposure to the U.S. equity market by replicating the S&P 500 Index and investments in value added absolute return strategies. The performance objective is to provide returns higher than the total return of the S&P 500 Index over a four-year period.
- (u) The Europe, Australasia and Far East (EAFE) Active Equity Pool consists of multiple portfolios of publicly traded non-North American equities. Portfolios are actively managed by external managers with European and Pacific Basin mandates. The performance objective is to provide returns higher than the total return of the Morgan Stanley Capital International (MSCI) EAFE Index over a four-year period.
- (v) The EAFE Structured Equity Pool is managed with the objective to provide returns comparable to the total return of the MSCI EAFE Index over a four-year period. The pool provides exposure to EAFE markets through the use of structured investments such as foreign equity index swaps. The pool also invests in the FRNP to generate the floating rate cash flows needed for its equity swap obligations (see Note 3 (m)).
- (w) The Emerging Markets Equity Pool consists of publicly traded equities in emerging markets around the world. The portfolio is actively managed by external managers with expertise in emerging markets. The performance objective is to provide returns higher than the total return of the Morgan Stanley Capital Index Emerging Markets Free (MSCI EMF) Index over a four-year period.
- (x) Where there has been a loss in value of an investment that is other than a temporary decline, the cost of the investment is written down to recognize the loss (see Note 2 (a)). Where the fair value remains less than cost, after recording a writedown, it is management's best judgement that the decline in value is caused by short-term market trends and is temporary in nature.

NOTE 4 DERIVATIVE CONTRACTS

Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates or currency rates. The Fund uses derivative contracts held indirectly through pooled investment funds to enhance return, manage exposure to interest rate risk and foreign currency risk and for asset mix management purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows.

- (i) A swap is a contractual agreement between two counter-parties to exchange a series of cash flows (usually settled every three months) based on a notional amount. An equity or bond index swap involves the exchange of a floating interest rate cash flow for one based on the performance of a market index. For interest rate swaps, parties generally exchange fixed and floating rate interest cash flows based on a notional amount. Cross-currency interest rate swaps are contractual obligations in which the principal amounts of Canadian fixed-income securities denominated in foreign currency are exchanged for Canadian currency amounts both initially and at maturity. Over the term of the cross-currency swap, counter-parties exchange fixed to fixed and fixed to floating interest rate cash flows in the swapped currencies. A credit default swap allows counter-parties to buy and sell protection on credit risk inherent in a bond. A premium is paid, based on a notional amount, from one counter party to a second counter party in exchange for a contingent payment should a defined credit event occur with respect to the underlying security. There are underlying securities supporting all swaps. Leveraging is not allowed.
- (ii) Forward foreign exchange contracts are contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.
- (iii) Futures contracts are an agreement to receive or pay cash based on changes in the level of the specified index.
- (iv) Swap option contracts include the right, but not the obligation, to enter into an interest rate swap at a preset rate within a specific period of time.

The following is a summary of the Fund's proportionate share of the notional amount and fair value of derivative contracts held by pooled funds at June 30, 2009 (in millions):

	Maturity			June 30, 2009		March 31, 2009	
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount (a)	Fair Value (b)	Notional Amount (a)	Fair Value (b)
Equity index swap contracts	98%	2%	-	\$ 3,086	\$ 115	\$ 2,910	\$ 9
Interest rate swap contracts	19%	53%	28%	928	(34)	1,088	(55)
Forward foreign exchange contracts	100%	-	-	2,314	30	2,635	(94)
Cross-currency interest rate swaps	40%	33%	27%	751	(13)	854	(32)
Credit default swap contracts	22%	36%	42%	4,076	(54)	5,398	(88)
Bond index swap contracts	100%	-	-	138	(1)	165	1
Futures contracts	100%	-	-	698	53	1,160	175
				\$ 14,458	\$ 95	\$ 14,210	\$ (84)

- (a) The notional amounts, upon which payments are based, are not indicative of the credit risk associated with derivative contracts. Current credit exposure is represented by the current replacement cost of all outstanding contracts in a favourable position (positive fair value). The Fund attempts to limit its credit exposure by dealing with counter-parties believed to have good credit standing (A+ or greater).
- (b) The method of determining the fair value of derivative contracts is described in Note 2 (e).

NOTE 5 INVESTMENT RISK MANAGEMENT

Income and financial returns of the Fund are exposed to credit risk and price 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. Price risk is comprised of currency risk, interest rate risk and market risk. Currency risk relates to the possibility that the investments will change in value due to future fluctuations in foreign exchange rates. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices.

The Standing Committee on the Alberta Heritage Savings Trust Fund reviews and approves the business plan of the Fund. In order to earn an optimal financial return at an acceptable level of risk, the Business Plan proposed the following asset mix policy for the Fund for 2009-10.

Equities	35-70%
Money Market and Fixed income securities	15-45%
Inflation sensitive and Alternatives	15-40%

Risk is reduced through asset class diversification, diversification within each asset class, quality and duration constraints on fixed-income instruments, and restrictions on amounts exposed to countries designated as emerging markets. Controls are in place respecting the use of derivatives (see Note 4). Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in foreign currency (see Note 4).

NOTE 6 NET ASSETS (in millions)

Net assets represent the difference between the carrying value of 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	
	June 30, 2009	March 31, 2009
Accumulated net income	\$ 28,950	\$ 28,220
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	(29,155)	(28,425)
Amount Retained for Inflation-proofing	1,562	1,562
	(27,593)	(26,863)
Capital Expenditures (1976-1995) (c)	(3,486)	(3,486)
	(31,079)	(30,349)
Net Assets, at cost	\$ 13,838	\$ 13,838
Net Assets, at fair value	\$ 14,308	\$ 13,980

- (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) In accordance with section 8(2) of the Alberta Heritage Savings Trust Fund Act (the Act), the Fund transferred \$730 million to the GRF for the quarter. The Act states that the net income of the Heritage Fund, totalling \$730 million, less any amount retained in the Fund to maintain its value, in accordance with section 11(1), totalling \$Nil, shall be transferred to the GRF annually in a manner determined by the Minister of Finance and Enterprise. 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 price index (GDP Index) for the period. In accordance with section 11(3), if the GDP 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.

NOTE 7 INVESTMENT INCOME (in millions)

Investment income by asset class is as follows:

	Three Months Ended June 30,	
	2009	2008
Canadian equities	\$ 225	\$ 161
United States equities	210	(68)
Non-North American equities	108	(26)
Deposit and fixed-income securities	72	54
Absolute return strategies	64	18
Real estate	53	23
Private income	20	4
Timberland	6	1
Private equities	(10)	4
Total Investment Income	\$ 748	\$ 171

Investment income by type is as follows:

	Three Months Ended June 30,	
	2009	2008
Interest, dividends, rental income and security lending income	\$ 144	\$ 163
Net realized gain (loss) on investments	629	84
Writedown of investments	(25)	(76)
Total Investment Income	\$ 748	\$ 171

NOTE 8 INVESTMENT EXPENSES (in millions)

Investment services are provided by the Alberta Investment Management Corporation (AIMCo), a provincial corporation and part of the Ministry of Finance and Enterprise. It provides the day to day investment services for the Fund's investment portfolio. However, in order to achieve greater diversification, access external expertise and specialized knowledge and to reduce operational complexity, some investments are managed by third party investment managers selected and monitored by AIMCo.

Investment expenses are recognized on an accrual basis and include those costs and fees incurred to earn investment income by the Fund. The Fund recognizes portfolio management and administration expenses incurred directly by the Fund and its share of expenses through pooled investment funds. Investment services provided directly by AIMCo are charged to the Fund and to pooled funds on a cost recovery basis. Investment services provided by external managers are charged to pooled funds based on a percentage of net assets under management at fair value, or committed amounts. Fees charged by external managers include primarily regular management fees and performance/incentive based fees to the extent recognized.

	Three Months Ended June 30,	
	2009	2008
Canadian equities	\$ 1	\$ 1
United States equities	2	2
Non-North American equities	2	2
Deposit and fixed-income securities	1	1
Absolute return strategies	2	2
Real estate	2	2
Private income	2	1
Timberland	-	-
Private equities	5	4
Direct administrative expenses	1	1
Total Investment Expenses	\$ 18	\$ 16
Percent of net assets at fair value	0.13%	0.09%

NOTE 9 INVESTMENT PERFORMANCE (net of investment expenses)

The Fund is expected to generate a long-term rate of return of 7.6%, which includes a real rate of return of 4.5% plus CPI of 2.1% and 1.0% from active management. The following is a summary of the overall investment performance results attained by the Fund determined on a fair value basis:

	Three Month Return	Five Year Compound Annualized Return	Ten Year Compound Annualized Return
Time-weighted rates of return			
Overall actual return	7.6%	4.0%	3.9%
Benchmark return	7.3%	4.2%	3.8%
Value added (lost) from active management	0.3%	-0.2%	0.1%

NOTE 10 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to 2009 presentation.

NOTE 11 APPROVAL OF FINANCIAL STATEMENTS

The Deputy Minister of Finance and Enterprise approved these financial statements.

