Hamilton

INFORMATION REPORT

TO: Chair and Members Audit, Finance and Administration Committee	**WARD(S) AFFECTED:** CITY WIDE
COMMITTEE DATE: September 21, 2011	
SUBJECT/REPORT NO: Hamilton Future Fund Investment Performance Report - June 30, 2011 (FCS11077) (City Wide)	
SUBMITTED BY: Roberto Rossini General Manager Finance & Corporate Services Department **SIGNATURE:**	**PREPARED BY:** Gerald T. Boychuk 905-546-4321 Rosaria Morelli 905-546-2424 Ext. 1390

Council Direction:

Not Applicable.

Information:

The City of Hamilton Future Fund portfolio of investments had an earnings rate of **4.63%** for the 12 months ending June 30, 2011 and an average earnings rate of **4.79**% over the past five years. Bond lending revenues of **$4,950** are included in the earnings rate of **4.63%**. The earnings rate includes interest and lending revenues, but excludes realized and unrealized capital gains/losses.

The City of Hamilton Future Fund's portfolio generated approximately **$3.48** million in bond interest, net realized capital gains, lending revenue over the last 12 months ending June 30, 2011. The total return of **$3.48** million was realized on an average investment at a cost of **$67,971,402**. The percentage return on investment cost over this period was **5.12%**. Interest, realized capital gains/losses and lending income over the last five years have averaged approximately **$4.6** million annually. The duration of the portfolio of investments was **2.53** years as of June 30, 2011 compared to **2.87** years as of December 31, 2010. As at June 30, 2011 the market value of the portfolio was **$66,000,763**; net unrealized capital gains totalled **$2,904,459** million and net capital gains of **$313,974** were realized through the past 12 months.

For the 12 months ending December 31, 2010, the overall return (which includes interest, bond lending revenue, realized and unrealized capital gains/losses) was **3.47%,** outperforming the benchmark return of **3.04%** by **43** basis points. Over the past five years, the overall return has averaged **4.94%** per annum, beating the average benchmark return over the same five-year period of **4.46%** by **48** basis points.

The overall returns for the One Fund (offered by the Association of Municipalities of Ontario and the Municipal Finance Officers Association) for the year ended June 30, 2011 were **2.77%** for bonds and **1.08%** for money market. If the City's Policy had been used in these funds (i.e. 90% bonds and 10% money market), the overall return would have been **2.60%** or **87** basis points less than the actual return of **3.47%**. Using an average portfolio market value of **$72,392,060** million for the past 12 months, an increase of **0.87%** in overall return translates into a revenue increase of approximately **$629,810**. The following Table 1 summarizes the investment return indicators.

Table 1

Investment Return Indicators (for information purposes only) (to June 30, 2011)

	12 Months ended 6/30/2011	**12 Months ended 12/31/2010**	**12 Months ended 12/31/2009**	**12 Months ended 12/31/2008**	**12 Months ended 12/31/2007**
Policy Target	3.04%	3.89%	1.72%	9.17%	4.50%
Hamilton Future Fund Portfolio	**3.47%**	**3.91%**	**4.69%**	**8.86%**	**3.75%**
The One Fund – Bonds	2.77%	3.00%	3.35%	8.08%	3.84%
The One Fund – Money Mkt.	1.08%	0.65%	0.75%	4.00%	4.39%
Dex - Short Government	2.79%	3.29%	1.94%	8.55%	4.54%
Dex – Mid Governments	4.37%	6.51%	1.57%	7.01%	4.52%
Lending Revenue	$4,950	$4,046	$8,524	$6,395	$9,242
Earnings Rate (Excludes Capital Gains/Losses)	**4.63%**	**4.57%**	**5.0%**	**4.89%**	**4.84%**

The Future Fund out-performed its benchmark due to its investments in short provincial bonds and major Canadian Schedule I bank deposit Notes, both of which continue to add value. Investments in the portfolio consist primarily of bonds of less than five years in maturity with virtually no money market investments (given the extremely low interest rates offered on money market investments). Investments have been in bonds that can enhance the earnings yield versus longer maturity Canada Government bonds.

The following Table 2 illustrates the changes in Canadian interest rates over the past 18 months:

Table 2

CANADIAN INTEREST RATES			
Maturity Term: Canada Benchmark	**Interest Rate June 30, 2011**	**Interest Rate January 4, 2011**	**Interest Rate January 4, 2010**
One Month (T-Bill)	0.91%	0.91%	0.14%
2 yr	1.59%	1.70%	1.45%
5 yr	2.33%	2.46%	2.76%
10 yr	3.11%	3.17%	3.61%

At the end of the six month period ending June 30, 2011, the Canadian federal bond yields were approximately unchanged, except for bonds with two to five year maturities whose yields declined moderately. During the second quarter of 2011, weaker economic data in the U.S. and Canada emerged, putting into question the durability of the recovery which up until now was mostly driven by fiscal and monetary stimuli. Compared to year end 2010, credit spreads on Provincial bonds, Canadian Schedule I Deposit notes and Canadian Agency bonds, in general, were roughly unchanged except for those with term to maturity less than five years where spreads in general declined moderately. Commodities were up 1.6%; crude oil was up 4.4%; gold was up 6.6% closing at 1500.35; and the Canadian dollar relative to the U.S. dollar strengthened further to 1.0380. The Bank of Canada left the policy interest rate (at 1%) unchanged at each of its four policy meetings in the first half of 2011.

Recently, the escalating debt crisis in Europe, the weaker international growth outlook (especially in the U.S.) and the Federal Reserve's conditional commitment to keep its benchmark rate near zero until at least 2013, have prompted many private sector forecasters to push forward their expectations for the Bank of Canada to raise the policy rate.

In July 2011, the Bank of Canada revised down its forecast for global growth in 2011 to 3.9% from 4.1% and projected Canadian real GDP to be 2.8% in 2011. Risks to the outlook are that growth does not pick up in the balance of 2011, a possible double dip recession in the U.S. and deflation or stagflation.