INFORMATION REPORT

TO: Chair and Members Audit, Finance and Administration Committee	**WARD(S) AFFECTED:** CITY WIDE
COMMITTEE DATE: March 19, 2011	
SUBJECT/REPORT NO: Hamilton Future Fund Investment Performance Report - December 31, 2011 (FCS11077(a)) (City Wide)	
SUBMITTED BY: Roberto Rossini General Manager Finance & Corporate Services Department **SIGNATURE:**	**PREPARED BY:** Gerald T. Boychuk 905-546-4321

Council Direction:

Not Applicable.

Information:

The City of Hamilton Future Fund portfolio of investments had an earnings rate of **4.72%** for the 12 months ending December 31, 2011 and an average earnings rate of **4.80**% over the past five years. Bond lending revenues of **$6,697** are included in the earnings rate of **4.72%.** The earnings rate includes interest and lending revenues, but excludes realized and unrealized capital gains/losses.

The City of Hamilton Future Fund's investment portfolio generated approximately **$3.2** million in bond interest, net realized capital gains and lending revenue over the 12 months ending December 31, 2011. The total return of **$3.2** million was realized on an investment at an average cost of **$65,145,900**. The percentage return on average investment cost over this period was **4.94%.** Interest, realized capital gains/losses and lending income over the last five years have averaged approximately **$4.6** million annually on an investment at an average cost of **$73,348,915**. The duration of the portfolio of investments was **3.17** years as of December 31, 2011 compared to **2.87** years as of December 31, 2010. As at December 31, 2011, the market value of the portfolio was **$71,440,268**; net unrealized capital gains totalled **$3,058,630** and a net capital loss of **$35,186** was realized over the past 12 months.

For the 12 months ending December 31, 2011, the overall return (which includes interest, bond lending revenue, realized and unrealized capital gains/losses) was **4.33%**, underperforming the benchmark return of **5.76**% by **1.43**%. Over the past five years, the overall return has averaged **5.11%** per annum, beating the average benchmark return over the same five-year period of **5.01%** by **10** 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 December 31, 2011 were **4.19%** for bonds and **1.19%** 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 **3.89%** or **44** basis points less than the actual return of **4.33%**. Using an average portfolio market value of **$69.37** million for the past 12 months, an increase of **44** basis points in overall return translates into a revenue increase of **$305,215.**

Table 1 below summarizes the investment return indicators:

Table 1

Investment Return Indicators (for information purposes only)
(to December 31, 2011)

	12 Months ended 12/31/2011	**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	5.76%	3.89%	1.72%	9.17%	4.50%
Hamilton Future Fund Portfolio	**4.33%**	**3.91%**	**4.69%**	**8.86%**	**3.75%**
The One Fund – Bonds	4.19%	3.00%	3.35%	8.08%	3.84%
The One Fund – Money Mkt.	1.19%	0.65%	0.75%	4.00%	4.39%
Dex - Short Government	4.62%	3.29%	1.94%	8.55%	4.54%
Dex – Mid Governments	10.20%	6.51%	1.57%	7.01%	4.52%
Lending Revenue	$6,697	$4,046	$8,524	$6,395	$9,242
Earnings Rate (Excludes Capital Gains/Losses)	**4.72%**	**4.57%**	**5.00%**	**4.89%**	**4.84%**

The Future Fund investment portfolio underperformed its benchmark due to its overweight position in Provincial and Canadian Schedule I Bank Note bonds with shorter maturities (less than one year in maturity). In these sectors, longer term bonds outperformed shorter term bonds.

Table 2 below summarizes the changes in Canadian interest rates over the past 24 months:

Table 2

CANADIAN INTEREST RATES			
Maturity Term: Canada Benchmark	**Interest Rate January 2, 2012**	**Interest Rate January 3, 2011**	**Interest Rate January 2, 2010**
One Month (T-Bill)	0.73%	0.90%	0.14%
2 yr	0.96%	1.67%	1.45%
5 yr	1.28%	2.42%	2.76%
10 yr	1.94%	3.12%	3.61%

As at December 31, 2011, compared to December 31, 2010, the yields on Government of Canada bonds were sharply lower across the entire yield curve – the yield on the 10-year bond reached an all-time low of 1.84% in mid-December – and credit spreads were moderately wider on Provincial, Canadian Schedule I Bank Deposit Note and Canada Housing Trust Agency bonds. Commodities were down by 8.3%; crude oil was up 8.2%; gold was up 10.1%; and the Canadian dollar relative to the U.S. dollar weakened from about parity at the end of 2010 to USD97.89 on December 31, 2011. In the second half of 2011, flight to quality and higher risk aversion were the key themes driving the bond market rally as the European sovereign debt crisis intensified and as U.S. and global economic growth prospects were revised downward. Throughout 2011, the Bank of Canada kept the policy interest rate at 1%, unchanged, citing external downside risks.

Recently, on January 25, 2012, the Federal Reserve said it will extend the period over which it plans to keep the policy rate near zero until late 2014, signalling that a full recovery in the U.S. economy is still years away. On January 17, 2012, as expected, the Bank of Canada continued to stand pat and said in its Monetary Policy Report, that "the outlook for the global economy has deteriorated and uncertainty had increased". Still, market expectations are that the Bank of Canada will raise policy rates ahead of the Federal Reserve and possibly in 2013.

The Bank of Canada projects that the Canadian economy will grow by 2 per cent in 2012. The International Monetary Fund (IMF) recently reduced its estimate for 2012 global growth to 3.3 per cent from 4 per cent just three months ago mostly because of ongoing European debt crisis.

Some downside risks to the global economic outlook in 2012 include a hard economic landing in China as the momentum slows in its economy; a deeper than expected recession in Europe including a recession in the U.S.; and deflation.