

CITY OF HAMILTON

CORPORATE SERVICES
Financial Planning and Policy Division
Investments Section

TO: Chair and Members Audit, Finance and Administration Committee	WARD(S) AFFECTED: CITY WIDE
COMMITTEE DATE: April 10, 2012	
SUBJECT/REPORT NO: Treasurer's Investment Report 2011 Fiscal Year by AON Hewitt (FCS12034) (City Wide)	
SUBMITTED BY: Roberto Rossini General Manager Finance & Corporate Services Department	PREPARED BY: Gerald T. Boychuk 905-546-4321
SIGNATURE:	

RECOMMENDATION

- (a) That the City of Hamilton-Reserve Funds Treasurer's Investment Report 2011 Fiscal Year (attached as Appendix "A" to Report FCS12034) be received;
- (b) That Report FCS12034 "Treasurer's Investment Report 2011 Fiscal Year by AON Hewitt" and the City of Hamilton-Reserve Funds Treasurer's Investment Report 2011 Fiscal Year (attached as Appendix "A" to Report FCS12034) be forwarded to the Hamilton Future Fund Committee for information.

EXECUTIVE SUMMARY

The City of Hamilton-Reserve Funds Treasurer's Investment Report 2011 Fiscal Year, the "Treasurer's Report", (attached as Appendix "A" to Report FCS12034 is prepared by AON Hewitt (Hewitt) on behalf of the City Treasurer and is to be presented to City

Council in the second quarter of every calendar year, as stipulated in the Municipal Act and Section 1.11 of the City of Hamilton Reserve/Revenue Trust Accounts Statement of Investment Policies and Procedures (SIP&P) (Report FCS11008). The overall objective of the Treasurer's Report is to ensure that the City of Hamilton Reserve Fund and the Hamilton Future Fund ("the Funds") are managed in accordance with existing legislation and the guidelines set out in the SIP&P as well as to provide an independent third party review of the Funds' performance.

The Treasurer's Report contains the following five items: Funds Performance, Types of Securities, Portfolio Securities, Transactions and Certificate of Compliance. Under Funds Performance, the returns calculated by RBC Dexia (RBC), the City's Custodian, effectively match (to one decimal place) the returns calculated by Hewitt.

For the twelve months ending December 31, 2011, the City Reserve Fund's rate of return was 6.83% (Report FCS11075(a)) and the Hamilton Future Fund's rate of return was 4.33% (Report FCS11077(a)) whereas the benchmark return was 5.76%. The Reserve Fund outperformed the benchmark by 1.07% and the Hamilton Future Fund underperformed the benchmark by 1.43%. The Reserve Fund's performance in 2011 is attributed to the holdings of longer maturity Canadian Schedule I bank deposit notes and Provincial and Municipal bonds which benefited from the decline in interest rates in 2011. The Hamilton Future Fund was overweight in shorter-maturity bonds, which appreciated less in price compared to longer maturity bonds.

By outperforming the benchmark in 2011, the Reserve Fund earned an additional income of \$19.9 million, which contributed to a return on asset cost of 4.31%. In 2011, the Hamilton Future Fund underperformed the benchmark and had a return on asset cost of 4.94%, but had additional income of \$305,215 versus using the One Funds.

Rate of return includes net unrealized gains/losses and values the assets on a market value basis. Return on asset cost does not include net unrealized gains/losses and values the assets on an amortized historical cost basis. Both return calculations include income and net realized gains/losses.

In summary, the Treasurer's Report shows all investment activities were compliant with both legislated and internal guidelines.

Alternatives for Consideration – Not Applicable

FINANCIAL / STAFFING / LEGAL IMPLICATIONS (for Recommendation(s) only)

Financial: None

Staffing: None

Legal: : Under the Municipal Act, City Council requires the City Treasurer to prepare and provide to Council, each year, an investment report.

HISTORICAL BACKGROUND (Chronology of events)

Under the Municipal Act and the City's SIP&P, the City Treasurer is required to prepare and present to Council each year an investment report on the management of the City's Funds during the prior fiscal year. The Treasurer's Report prepared by Hewitt on behalf of the City Treasurer fulfils these requirements.

POLICY IMPLICATIONS

The Treasurer's Report is in compliance with the City's SIP&P.

RELEVANT CONSULTATION

Hewitt prepared, on behalf of the Treasurer of the City of Hamilton, the Treasurer's Report. Hewitt was on site to review RBC's Audit Continuity Report and credit exposure reports. Hewitt's results contained in the Treasurer's Report are that the management of the Funds are compliant.

ANALYSIS / RATIONALE FOR RECOMMENDATION

(include Performance Measurement/Benchmarking Data, if applicable)

The Treasurer's Report must contain the following five items: Funds Performance, Types of Securities, Portfolio Securities, Transactions and Certificate of Compliance.

- **Funds Performance**

Funds performance is calculated by RBC Benchmarking Services from custodial financial statements supplied by RBC Dexia Investor Services. Both firms are 50% owned subsidiaries of the Royal Bank of Canada.

Hewitt calculated monthly returns using the Dietz method and linked these returns to calculate quarterly and annual returns. Hewitt's calculation of the returns was compared to RBC's calculation of the returns, allowing for a 0.10% tracking error.

The RBC returns, after verification, were compared to the City's benchmark or policy return to determine value added/subtracted. The periods covered were the four quarters in 2011, the one-year period ending December 31, 2011 and the three-year period ending December 31, 2011. The results are summarized in Table 1, below.

Table 1

Rates of Return (%) for Hamilton Reserve Fund, Hamilton Future Fund and the Benchmark

	Q1 2011	Q2 2011	Q3 2011	Q4 2011	One Year 2011	Three Years (Annualized)
<u>Hamilton Reserves</u>						
RBC Dexia	-0.2	1.9	3.5	1.4	6.8	5.3
Hewitt	-0.2	1.9	3.5	1.4	6.8	5.3
Difference	0.0	0.0	0.0	0.0	0.0	0.0
<u>Hamilton Future Fund</u>						
RBC Dexia	0.3	1.5	1.9	0.6	4.3	4.3
Hewitt	0.3	1.5	1.9	0.6	4.4	4.3
Difference	0.0	0.0	0.0	0.0	-0.1	0.0
<u>Benchmark</u>	0.0	1.6	3.1	0.9	5.8	3.8
<u>Hamilton Reserves</u>						
Value Added (RBC)	-0.2	0.3	0.4	0.5	1.0	1.5
<u>Hamilton Future Fund</u>						
Value Added (RBC)	0.3	-0.1	-1.2	-0.3	-1.5	0.5

As shown in Table 1, above, quarterly returns in 2011 and the annual returns, calculated by RBC, were within 0.1% of the returns calculated by Hewitt.

The City Reserve Funds' returns equalled or outperformed its benchmark in the last three quarters of 2011, underperformed its benchmark in the first quarter, and outperformed the benchmark by 1.0% for the one-year period ending December 31, 2011. The Hamilton Future Fund underperformed the benchmark in the last three

quarters, outperformed the benchmark in the first quarter and underperformed the benchmark for the one-year period ending December 31, 2011. The benchmark is composed of 10% 91-day T-Bills, 62.5% Short-Term All Government Index, and 27.5% Government Composite Index. The benchmark is biased to very short bonds, government bonds and money market holdings.

The added value in the Reserve Fund's return is attributed to the holdings of longer maturity Canadian Schedule I bank deposit notes, Provincial and Municipal bonds which benefited from the significant decline in interest rates in 2011. The Hamilton Future Fund had holdings of shorter maturity Canadian Schedule I bank deposit notes and Provincial bonds which appreciated less in price compared to bonds of longer maturity.

- **Types of Securities**

The approved list of securities, permitted investments under the Municipal Act, is shown on page 6 of the Treasurer's Report. Hewitt confirmed the types of investments held by the Funds, shown on pages 7 and 8 of Treasurer's Report, were all on the approved list of securities. As well, Hewitt confirmed that the investments in One Equity Fund (offered by the Association of Municipalities of Ontario and the Municipal Finance Officers' Association) were compliant.

- **Portfolios' Securities as at December 31, 2011**

Securities held, including their coupon, maturity date, quality rating and market value, as at December 31, 2011 are listed for the Funds on pages 9 to 11 of the Treasurer's Report.

Monthly statements were reviewed to ensure compliance with the City's SIP&P. As at December 31, 2011 on a combined basis, the Funds were being managed in compliance with the minimum quality requirements, maximum quantity restrictions and all other restrictions imposed on it, as shown in Table 2 (reproduced from page 12 of the Treasurer's Report).

**Table 2
Restrictions**

Constraints	Policy
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	Complied with Yes/No	
The City shall not invest more than 25% of the portfolio in short-term debt issued or guaranteed by the City.	Yes	
Total investment in "A" or equivalent rated debt on purchase must not exceed 35% of the market value of the City's bond portfolio	Yes	
The City shall not invest in a security that is expressed or payable in any currency other than Canadian dollars	Yes	
The City shall not invest in a security issued or guaranteed by a school board or similar entity unless: <ul style="list-style-type: none"> • The money raised by issuing the security is to be used for school purposes; and • The security is to be repaid entirely from taxes or charges levied on property, with grants or appropriations made by the government of Canada or a province or territory of Canada or municipality. 	Yes	
Permitted ranges	(%)	
Federal issues	0-100	Yes
Provincial holdings in aggregate	0-100	Yes
Single province exposure	0-50	Yes
Individual non-federal/non provincial holdings*	0-10	Yes
Non-federal/non provincial holdings in aggregate	0-50	Yes
Municipal issues*		
- individual muni issue rated "AAA"	0-10	Yes
- individual muni issue rated "AA"	0-10	Yes
- individual muni issue rated "A"	0-5	Yes
Municipal holdings in aggregate	0-30	Yes
Short-term securities	0-50	Yes
Portfolio duration	1-6 Years	Yes

*Except for City of Hamilton issues which have a limit of 25%

The City's SIP&P stipulates a maximum level for credit exposure to an issuer or group. The credit exposure is the par value of the issuer's securities held divided by the par value of all securities held in the portfolio. The credit exposure for the City Reserve Funds, the Hamilton Future Fund and the combined City Reserve and Hamilton Future Funds (excluding the shares of the Hamilton Utilities Corporation held in the Hamilton Future Fund) is shown in Table 3, below.

Table 3

Credit Exposure - December 31, 2011

Issuer	City Funds (\$712,268,751 market value)	Future Fund (\$71,440,268 market value)	Combined (\$783,709,019 market value)	Maximum Credit Exposure
Canada				
Direct	1.5%	0.0%	1.4%	100%
Guarantee	2.6%	0.0%	2.4%	25%
Provinces				
Ontario	17.0%	40.0%	10.2%	50%
Other	19.0%	22.4%	28.2%	50%
Municipalities				
Hamilton	2.5%	0.0%	2.3%	25%
Other	18.4%	4.4%	17.2%	30%
Banks				
Schedule I	27.2%	33.2%	27.7%	50%
Schedule II	0.0%	0.0%	0.0%	25%
Asset Backed Securities	9.7%	0.0%	8.8%	25%
Corp. Bonds	0.5%	0.0%	0.4%	15%
Comm. Paper				
Corp. Paper and ABCP	0.7%	0.0%	0.6%	20%
One Equity Fund	0.9%	0.0%	0.8%	10%
Total	100%	100%	100%	

- **Transactions**

As outlined on page 14 of the Treasurer's Report, total purchase and sale activity in the City Reserve Fund was approximately \$648.1 million for total net purchases of approximately \$17.5 million. For the Hamilton Future Fund, total purchase and sale activity was approximately \$16.3 million for total net purchases of \$4.7 million.

Transactions are summarized on monthly custodial statements from RBC. In addition, RBC supplies an "Audit Continuity Report" which shows all purchases, sales and maturities. This report is kept in archives and is available upon request.

Hewitt samples the transaction statements against activities recorded in the custodial statements to authenticate all transactions. Hewitt confirms that the date, the name of the issue and issuer of each transaction has been recorded. The statements are filed and kept in safekeeping at City Hall.

- **Certificate of Compliance**

The Chief Investments Officer (CIO) has certified on page 15 of the Treasurer's Report that the Funds were managed in compliance with the City's SIP&P, the Municipal Act, and the Code of Ethics and Standard of Professional Conduct as promulgated by the CFA Institute. Furthermore, the CIO managed the Funds with the care, diligence and skill that an ordinary prudent investment manager would use.

The Funds were in compliance throughout the year 2011.

ALTERNATIVES FOR CONSIDERATION

(include Financial, Staffing, Legal and Policy Implications and pros and cons for each alternative)

Not Applicable

CORPORATE STRATEGIC PLAN (Linkage to Desired End Results)

Focus Areas: 1. Skilled, Innovative and Respectful Organization, 2. Financial Sustainability, 3. Intergovernmental Relationships, 4. Growing Our Economy, 5. Social Development, 6. Environmental Stewardship, 7. Healthy Community

Skilled, Innovative & Respectful Organization

- ◆ A culture of excellence

Financial Sustainability

- ◆ Financially Sustainable City by 2020

Intergovernmental Relationships

- ◆ Influence federal and provincial policy development to benefit Hamilton

Growing Our Economy

- ◆ Newly created or revitalized employment sites

Social Development

- ◆ Everyone has a home they can afford that is well maintained and safe

Environmental Stewardship

- ◆ Natural resources are protected and enhanced

Healthy Community

- ◆ Plan and manage the built environment

APPENDICES / SCHEDULES

Appendix "A" to FCS12034

City of Hamilton—Reserve Funds Treasurer's Investment Report 2011 Fiscal Year

March 2012

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Introduction

As the acting Investment Consultant, Aon Hewitt, is required to prepare, on behalf of the Treasurer of the City of Hamilton ("City"), an investment report, referred to as the Treasurer's Report ("the report"), relating to the activities of the City of Hamilton Reserve Fund and the Hamilton Future Fund ("the Funds") during the prior fiscal year. The report will be presented to City Council in the second quarter of every calendar year.

The report is part of a broader governance oversight of the Funds, which includes financial audits, used to evaluate and monitor the various responsibilities that have been delegated by the Treasurer and City Council. More specifically, the overall objective of the report is to ensure that the Funds are managed in accordance with existing legislation and the guidelines set out in the Statement of Investment Policies and Procedures for the City of Hamilton Reserve Funds and Trust Accounts ("SIP&P") as well as to provide an independent third party review of the Funds' performance.

The report has been written in accordance with Section 1.11 of the SIP&P. As stipulated in Section 1.11 of the SIP&P, the report must contain the following items:

- A statement about the performance of the portfolio of investments of the City during the period covered by the report;
- A listing of the types of securities in which the portfolio invested during the period covered by the report;
- A listing of the securities and their credit ratings held by the portfolio at the date of the report;
- A record of the date of each transaction in or disposal of its own securities, including a statement of the purchase and sale of each security; and
- A statement by the Chief Investment Officer ("CIO") as to whether or not, in his or her opinion, all investments were made in accordance with the SIP&P.

This report addresses only the activities of the City of Hamilton Reserve Fund and the Hamilton Future Fund. The Trust Accounts are not covered by this report.

Reserve Fund Performance

The returns of the Funds are determined by RBC Dexia ("RBC"), the custodian, on a daily basis for the City of Hamilton Reserve Fund and on a monthly basis for the Hamilton Future Fund. Aon Hewitt verifies RBC's return figures, on a monthly basis only, through a separate calculation using RBC's monthly custodian statement as its data source. A tracking error of +/- 0.1% per quarter between the two calculations is deemed acceptable whilst discrepancies outside the tolerance range must be identified and corrected by mutual agreement.

The return calculation adopted by Aon Hewitt uses a monthly time-weighted methodology which includes realized and unrealized gains and losses and income from all sources and includes accruals. The return calculations are based on the Dietz method, whereby cash flows are assumed to occur at the mid-point of each month. Settlement date accounting is used. In cases where large cash flows occur away from mid-month, the Modified Dietz method is used, which day-weights cash flows. Monthly returns are geometrically linked to develop returns for longer periods. Returns for periods less than one year are not annualized. Returns for periods greater than one year are annualized. All return inputs, including market and book values, income from interest and dividends, accruals and external cash flows are taken from the custodian statements. Investment management fees are not included in return calculations but transaction costs are considered.

Aon Hewitt's return calculations are made in accordance with CFA Institute performance methodology standards. While the CFA Institute requires minimum quarterly valuations, Aon Hewitt exceeds that standard by using monthly valuations.

The Funds' performance objective, as outlined in Section 4.10 of the SIP&P, is to outperform a benchmark portfolio constructed from a blend of returns composed of 62.5% of the DEX All Government Short Term Bond Index, 27.5% of the DEX All Government Bond Index and 10.0% of DEX 91-Day Treasury-Bill Index.

Benchmark	%
DEX All Government Short Term Bond Index	62.5
DEX All Government Bond Index	27.5
DEX 91-Day Treasury Bill Index	<u>10.0</u>
	100.0

The performance returns of the Funds over each of the quarters of 2011, and the one-, two- and three- year periods ending December 31, 2011 are as follows:

City of Hamilton Reserve Fund—Performance %

	Q1 2011	Q2 2011	Q3 2011	Q4 2011	One Year	Two Years (annualized)	Three Years (annualized)
RBC Dexia	-0.2	1.9	3.5	1.4	6.8	5.6	5.3
Aon Hewitt	<u>-0.2</u>	<u>1.9</u>	<u>3.5</u>	<u>1.4</u>	<u>6.8</u>	<u>5.5</u>	<u>5.3</u>
Difference	0.0	0.0	0.0	0.0	0.0	0.1	0.0
Benchmark	0.0	1.6	3.1	0.9	5.8	4.8	3.8
Value Added (RBC)	-0.2	0.3	0.4	0.5	1.0	0.8	1.5

The returns calculated by RBC, compared to the returns calculated by Aon Hewitt, as shown above are within the tracking error tolerance range over all periods.

Over a one-year period, the City of Hamilton Reserve Fund's return of 6.8% outperformed the benchmark return of 5.8% by 100 basis points. This outperformance was mainly due to overweights in provincial and municipal bonds, the best performing sectors.

Hamilton Future Fund—Performance %

	Q1 2011	Q2 2011	Q3 2011	Q4 2011	One Year	Two Years (annualized)	Three Years (annualized)
RBC Dexia	0.3	1.5	1.9	0.6	4.3	4.1	4.3
Aon Hewitt	<u>0.3</u>	<u>1.5</u>	<u>1.9</u>	<u>0.6</u>	<u>4.4</u>	<u>4.1</u>	<u>4.3</u>
Difference	0.0	0.0	0.0	0.0	-0.1	0.0	0.0
Benchmark	0.0	1.6	3.1	0.9	5.8	4.8	3.8
Value Added (RBC)	0.3	-0.1	-1.2	-0.3	-1.5	-0.7	0.5

The returns calculated by RBC, compared to the returns calculated by Aon Hewitt, as shown above are within the tracking error tolerance range over all periods.

Over a one-year period, the City of Hamilton Future Fund's return of 4.3% underperformed the benchmark return of 5.8% by 150 basis points. This underperformance was due to an overweight in short-term bonds.

Types of Securities

The City is only allowed to invest in securities permitted under the Municipal Act as stipulated under the Eligible Investments, Regulation 438/97. As per Section 4.02 of the SIP&P, an Approved List of Investments has been established by the General Manager and the CIO. The Approved List corresponds to the permitted investments under the Municipal Act. The Approved List is as follows:

Bonds, Debentures, Promissory Notes, Other Evidence of Indebtedness

Government of Canada
 Canadian Provincial Government
 Canadian Territorial Government
 Government of Canada Agency
 Canadian Provincial Agency
 Canadian Territorial Agency
 Country other than Canada
 Canadian Municipality
 School Board in Canada
 Local Board in Canada
 Municipal Finance Authority of British Columbia
 Canadian Corporation
 Bank in Canada
 Loan Corporation or Trust Corporation in Canada*
 Credit Union in Canada
 Province of Ontario Savings Office
 International Bank for Reconstruction
 Inter-American Development Bank
 Supranational Financial Institution
 Supranational Government Organization

Deposit Receipts, Deposit Notes, Certificate of Deposits, Acceptances

Bank in Canada
 Loan Corporation or Trust Corporation in Canada
 Credit Union in Canada
 Province of Ontario Savings Office

Short-Term Securities

Board of Governors of a College of Applied Arts and Technology
 Degree Granting Institution
 Hospital Board
 Asset Backed Commercial Paper ("ABCP")

Shares Issued by a Corporation Incorporated Under of the Laws of Canada or a Province on Canada**

Grandfathered Investments

Non-Bank ABCP and Master Asset Vehicle Securities as per the Municipal Act. See Pg 26 of the City's SIP&P.

The above securities may only be expressed or payable in Canadian dollars.

*Includes Asset Backed Securities

**A municipality shall not invest in a security under paragraph 7.1 or 8.1 of section 2 unless, on the date the investment is made, the municipality has entered into an agreement with the Local Authority Services Limited and the CHUMS Financing corporation to act together as the municipality's agent for the investment in the security. O. Reg. 655/05, s. 4 (3).

We have reviewed the custodian statements as well as the transactions that have occurred to determine the types of securities that were held by the Funds during the 2011 period. We can confirm that the types of securities that were held in the City of Hamilton Reserve Fund and the Hamilton Future Fund during 2011 are as listed as follows:

The types of securities held by the City of Hamilton Reserve Fund were as follows:

City of Hamilton Reserve Fund—Types of Securities

Bonds, Debentures, Promissory Notes, Other Evidence of Indebtedness

Government of Canada
 Canadian Provincial Government
 Government of Canada Agency
 Canadian Provincial Agency
 Canadian Municipality
 School Board in Canada
 Municipal Finance Authority of British Columbia
 Canadian Corporation
 Bank in Canada
 Loan Corporation or Trust Corporation in Canada*
 Asset Backed Securities

*Includes Asset Backed Securities

Deposit receipts, Deposit Notes, Certificate of Deposits, Acceptances

Bank in Canada

Short-Term Securities

Asset Backed Commercial Paper

Shares Issued by a Corporation Incorporated Under of the Laws of Canada or a Province on Canada

One Equity Fund

Grandfathered Investments

Devonshire Trust ABCP
 Master Asset Vehicles (MAV) Securities

The types of securities held by the Hamilton Future Fund were as follows:

Hamilton Future Fund—Types of Securities

Bonds, Debentures, Promissory Notes, Other Evidence of Indebtedness

Government of Canada
 Canadian Provincial Government
 Government of Canada Agency

Canadian Provincial Agency
Canadian Municipality
Bank in Canada

**Deposit Receipts, Deposit Notes, Certificate of Deposits,
Acceptances**

Bank in Canada

In addition to the above list of securities, the Hamilton Future Fund has some monies invested in a private placement of 2,000 common shares of the Hamilton Utilities Corporation which amounts to \$151.6 million. As well, a small amount of money was also invested in a Short-Term Investment Fund ("STIF") of RBC.

All securities were expressed or payable in Canadian dollars. The types of securities held by the City of Hamilton Reserve Fund and the Hamilton Future Fund during 2011 were all part of the Approved List.

Portfolio Securities as at December 31, 2011

City of Hamilton Reserve Fund

Below are The City of Hamilton Reserve Fund securities and credit ratings as at December 31, 2011. In addition to the listings below, the Reserve Fund also held shares of the One Equity Fund, with a market value of \$6,108,300 and a book value of \$6,000,000.

Date	Issuer Name	Annual Coupon Rate	Maturity Date	Market Price	S&P Rating	Portfolio Market Value (\$)
Federal and Federal Guarantee Bonds						
12/31/2011	Government of Canada	2.750%	1-Jun-22	106.5698	AAA	10,656,983.20
12/31/2011	Canada Housing Trust	3.350%	15-Dec-20	108.1422	AAA	18,384,167.54
						29,041,150.74
Provincial and Provincial Guarantee Bonds						
12/31/2011	Alberta Municipal Finance	5.850%	1-Jun-12	101.9409	AAA	8,155,268.88
12/31/2011	Alberta Treasury	3.850%	3-Jun-13	103.7740	AAA	15,566,106.45
12/31/2011	Alberta Capital Finance Authority	0.82857%	2-Jul-14	100.6520	AAA	19,123,880.00
12/31/2011	Alberta Capital Finance Authority	Floating	9-Oct-12	100.1050	AAA	10,010,500.00
12/31/2011	Financement Quebec	3.500%	1-Dec-17	107.5845	A+	5,379,225.95
12/31/2011	Municipal Finance Authority of British Columbia	4.150%	1-Jun-21	109.3674	AAA	15,311,440.34
12/31/2011	Municipal Finance Authority of British Columbia	3.000%	1-Jun-16	105.0466	AAA	18,540,725.43
12/31/2011	Province of Alberta	1.850%	1-Sep-16	101.2740	AAA	10,127,400.00
12/31/2011	Province of British Columbia	5.750%	9-Jan-12	100.0308	AAA	2,000,616.60
12/31/2011	Province of British Columbia	3.700%	18-Dec-20	108.1421	AAA	10,814,207.40
12/31/2011	Province of British Columbia	Generic	9-Jun-14	96.6740	AAA	19,889,175.57
12/31/2011	Province of British Columbia	Generic	9-Jun-14	96.6908	AAA	845,693.78
12/31/2011	Province of British Columbia	4.250%	18-Jun-14	107.3290	AAA	7,513,030.00
12/31/2011	Province of British Columbia	3.250%	18-Dec-21	103.7925	AAA	22,834,359.68
12/31/2011	Province of Manitoba	4.800%	3-Dec-14	109.9738	AA	2,199,475.42
12/31/2011	Province of Manitoba	5.250%	3-Dec-12	103.7625	AA	5,188,126.00
12/31/2011	Province of Manitoba	4.300%	1-Mar-16	110.9135	AA	5,545,677.45
12/31/2011	Province of Manitoba	3.850%	1-Dec-21	108.7294	AA	21,745,870.80
12/31/2011	Province of Manitoba	Floating	17-Apr-14	100.1160	AA	10,011,600.00
12/31/2011	Province of New Brunswick	3.350%	3-Dec-21	103.4012	AA-	5,170,059.80
12/31/2011	Province of New Brunswick	4.500%	2-Jun-20	113.2538	AA-	5,662,690.45
12/31/2011	Province of Ontario	5.000%	8-Mar-14	108.0986	AA-	5,404,927.60
12/31/2011	Province of Ontario	4.000%	2-Jun-21	109.9346	AA-	46,172,547.12
12/31/2011	Province of Prince Edward Island	3.700%	2-Sep-20	107.1126	A	4,659,396.14
12/31/2011	Province of Quebec	4.250%	1-Dec-21	111.2407	A+	3,337,220.34
						281,209,221.20
Municipal and School Board Bonds						
12/31/2011	City of Hamilton	4.650%	30-Nov-17	112.0470	AA	2,913,222.00
12/31/2011	City of Hamilton	5.050%	19-Jun-21	114.8940	AA	3,513,458.52
12/31/2011	City of Hamilton	6.050%	12-Jul-15	114.5460	AA	3,710,144.94
12/31/2011	City of Hamilton	4.950%	31-Mar-18	113.7810	AA	4,972,229.70
12/31/2011	City of Hamilton	6.750%	19-Jul-16	119.5445	AA	1,916,299.10
12/31/2011	City of Hamilton	4.350%	31-Mar-12	100.7720	AA	1,774,594.92
12/31/2011	Region of Halton	5.200%	24-Sep-16	114.2250	AAA	792,721.50

12/31/2011	City of Montreal	4.500%	1-Dec-21	108.9699	A+	8,717,590.96
12/31/2011	City of Ottawa	5.200%	28-Mar-13	99.9809	AA+	1,344,540.60
12/31/2011	City of Ottawa	3.050%	19-Oct-19	100.8480	AA+	2,521,200.00
12/31/2011	City of Peterborough	4.200%	5-Mar-18	109.5140	AA-	2,503,490.04
12/31/2011	City of Peterborough	4.450%	5-Mar-19	110.7750	AA-	2,532,316.50
12/31/2011	City of Saskatoon	4.400%	27-Jun-17	110.7720	AAA	1,049,010.84
12/31/2011	City of Saskatoon	4.350%	27-Jun-16	109.8290	AAA	997,247.32
12/31/2011	City of Saskatoon	4.450%	27-Jun-18	111.2600	AAA	1,099,248.80
12/31/2011	City of Saskatoon	4.550%	27-Jun-19	112.0410	AAA	1,155,142.71
12/31/2011	City of Toronto	3.500%	12-Jun-21	102.5670	AA	5,128,347.70
12/31/2011	City of Toronto	4.950%	27-Jun-18	114.9850	AA	2,874,624.78
12/31/2011	City of Vancouver	3.450%	2-Dec-21	102.1924	AA	8,175,392.16
12/31/2011	City of Waterloo	4.400%	30-Oct-14	107.5500	Aaa (Moody's)	2,831,791.50
12/31/2011	City of Waterloo	3.550%	30-Nov-18	105.2100	Aaa (Moody's)	6,195,816.90
12/31/2011	City of Waterloo	3.000%	21-Nov-19	100.3750	Aaa (Moody's)	4,414,492.50
12/31/2011	City of Winnipeg	6.250%	17-Nov-17	121.2899	AA	606,449.32
12/31/2011	Region of Peel	3.500%	1-Dec-21	102.6280	AAA	16,420,477.44
12/31/2011	Region of York	5.375%	5-Jul-13	105.9000	AAA	2,196,366.00
12/31/2011	Region of York	6.550%	12-Apr-23	128.4133	AA-	14,641,681.27
12/31/2011	Region of York	4.000%	30-Jun-21	107.1334	AAA	7,499,336.18
12/31/2011	Ontario School Board Fin. Corp.	5.300%	7-Nov-13	107.1249	AA-	3,213,745.98

115,710,980.18**Corporate Bonds**

12/31/2011	Bank of Montreal	4.609%	10-Sep-25	110.5572	A+	3,869,502.91
12/31/2011	Bank of Montreal	3.490%	10-Jun-16	104.5217	A+	6,898,434.91
12/31/2011	Bank of Montreal	2.960%	2-Aug-16	102.1416	A+	3,574,956.07
12/31/2011	Bank of Montreal	3.103%	10-Mar-16	103.0664	A+	4,122,657.32
12/31/2011	Bank of Montreal	3.930%	27-Apr-15	105.9757	A+	5,298,783.60
12/31/2011	Bank of Montreal	5.450%	17-Jul-17	114.3826	A+	12,582,086.11
12/31/2011	Bank of Montreal	Floating	1-Feb-12	100.0060	A+	5,000,300.00
12/31/2011	Bank of Nova Scotia	Floating	20-Apr-12	100.0930	AA-	4,003,720.00
12/31/2011	Bank of Nova Scotia	3.430%	16-Jul-14	104.1702	AA-	6,250,214.58
12/31/2011	Bank of Nova Scotia	4.100%	8-Jun-17	107.5126	AA-	5,375,628.15
12/31/2011	Bank of Nova Scotia	4.560%	30-Oct-13	105.4421	AA-	10,544,213.20
12/31/2011	Bank of Nova Scotia	3.340%	25-Mar-15	104.2528	AA-	11,467,805.80
12/31/2011	Canadian Imperial Bank of Commerce	5.000%	10-Sep-12	102.5217	A+	13,327,823.21
12/31/2011	Canadian Imperial Bank of Commerce	3.950%	14-Jul-17	106.7106	A+	16,646,859.22
12/31/2011	Canadian Imperial Bank of Commerce	2.650%	8-Nov-16	100.8390	A+	5,041,951.35
12/31/2011	Canadian Imperial Bank of Commerce	3.300%	19-Nov-14	104.0081	A+	10,400,807.10
12/31/2011	Canadian Imperial Bank of Commerce	3.400%	14-Jan-16	104.2391	A+	9,902,717.16
12/31/2011	Genworth MI Canada	4.590%	15-Dec-15	104.1221	A-	3,123,662.34
12/31/2011	Royal Bank of Canada	3.660%	25-Jan-17	105.3355	AA-	10,533,551.10
12/31/2011	Royal Bank of Canada	Floating	15-Apr-14	99.3934	AA-	4,969,670.00
12/31/2011	Royal Bank of Canada	Floating	21-Jan-14	100.0710	AA-	10,007,100.00
12/31/2011	Royal Bank of Canada	4.530%	7-May-12	101.1565	AA-	10,115,649.00
12/31/2011	Royal Bank of Canada	3.030%	26-Jul-16	102.6539	AA-	5,132,693.60
12/31/2011	Royal Bank of Canada	4.930%	16-Jul-25	114.0235	AA-	5,701,176.00
12/31/2011	Toronto Dominion Bank	2.948%	2-Aug-16	102.4687	AA-	6,148,124.76

190,040,087.49

Asset Backed Securities

12/31/2011	Master Asset Vehicle II CL 13	20-Mar-14	100.0656	NR	851,444.96
12/31/2011	Master Asset Vehicle II CL A-1	15-Jul-56	100.1031	AH (DBRS) BBBL	41,157,113.32
12/31/2011	Master Asset Vehicle II CL A-2	15-Jul-56	100.0856	(DBRS)	27,091,010.20
12/31/2011	Master Asset Vehicle II CL-B	15-Jul-56	100.0856	NR	4,917,773.38
12/31/2011	Master Asset Vehicle II CL-C	15-Jul-56	100.0956	NR	2,266,953.34
12/31/2011	Master Asset Vehicle III	12-Sep-16	100.0000	NR	71,156.71
					76,355,451.91

Equivalents

12/31/2011	Devonshire Trust Services	26-Sep-07	99.1900	Discontinued	9,919,000.00
12/31/2011	Cash				81,000.00
					10,000,000.00
				Net Accruals	3,803,859.61

Total Fund**706,160,751.13****City of Hamilton Future Fund**

Below are the Hamilton Future Fund securities and credit ratings as at December 31, 2011. In addition to the securities below, Hamilton Utilities Corporation common shares worth \$151,563,000 were also held in the portfolio. This amount is not included in the total portfolio value shown below.

Date	Issuer Name	Annual Coupon Rate	Maturity Date	Market Price	S&P Rating	Portfolio Market Value (\$)
Provincial and Provincial Guarantee Bonds						
12/31/2011	Alberta Municipal Finance	5.850%	1-Jun-12	101.9409	AAA	5,097,043.05
12/31/2011	Province of New Brunswick	5.875%	6-Dec-12	104.3518	AA-	5,217,589.80
12/31/2011	Province of Ontario	5.000%	8-Mar-14	108.0986	AA-	4,323,942.08
12/31/2011	Province of Ontario	4.850%	2-Jun-20	116.5560	AA-	5,711,243.41
12/31/2011	Province of Ontario	5.375%	2-Dec-12	108.0986	AA-	18,696,200.58
12/31/2011	Alberta Capital Finance	Floating	2-Jul-14	100.6520	AAA	5,032,600.00
						44,078,618.92
Municipal and School Board Bonds						
12/31/2011	City of Montreal	5.000%	1-Dec-18	113.7808	A+	1,137,808.32
12/31/2011	City of Ottawa	5.100%	28-Mar-12	100.9250	AA+	1,978,130.00
						3,115,938.32
Corporate Bonds						
12/31/2011	Bank of Montreal	3.490%	10-Jun-16	104.5217	A+	940,695.67
12/31/2011	Bank of Montreal	5.450%	17-Jul-17	114.3826	A+	3,431,478.03
12/31/2011	Bank of Nova Scotia	3.430%	16-Jul-14	104.1702	AA-	2,395,915.59
12/31/2011	Bank of Nova Scotia	3.340%	25-Mar-15	104.2528	AA-	2,085,055.60
12/31/2011	Canadian Imperial Bank of Commerce	5.000%	10-Sep-12	102.5217	A+	3,075,651.51
12/31/2011	Royal Bank of Canada	5.060%	17-Jul-13	105.4595	AA-	3,902,001.91
12/31/2011	Royal Bank of Canada	4.710%	22-Dec-14	108.1151	AA-	2,162,301.58
12/31/2011	Toronto Dominion Bank	4.854%	13-Feb-13	103.9267	AA-	5,196,336.45
						23,189,436.34
Equivalents						
12/31/2011	Classified STIF			10.0000		436,639.24
						436,639.24
					Net Accruals	619,635.32
Total Fund						71,440,268.14

Restrictions		
Constraints		Policy Complied with Yes/No
The City shall not invest more than 25% of the portfolio in short-term debt issued or guaranteed by the City.		Yes
Total Investment in 'A' or equivalent rated debt on purchase most not exceed 35% of the market value of the City's bond portfolio.		Yes
The City shall not invest in a security that is expressed or payable in any currency other than Canadian dollars.		Yes
The City shall not invest in a security issued or guaranteed by a school board or similar entity unless: <ul style="list-style-type: none"> • The money raised by issuing the security is to be used for school purposes; and • The security is to be repaid entirely from taxes or charges levied on property, with grants or appropriations made by the government of Canada or a province or territory of Canada or municipality. 		Yes
Permitted ranges	(%)	
Federal issues	0-100	Yes
Provincial holdings in aggregate	0-100	Yes
Single province exposure	0-50	Yes
Individual non-federal/non provincial holdings *	0-10	Yes
Non-federal/non provincial holdings in aggregate	0-50	Yes
Municipal issues *		
- individual muni issue rated "AAA"	0-10	Yes
- individual muni issue rated "AA"	0-10	Yes
- individual muni issue rated "A"	0-5	Yes
Municipal holdings in aggregate	0-30	Yes
Short-term securities	0-50	Yes
Portfolio duration	1-6 Years	Yes

* Except for City of Hamilton issues which have a limit of 25%

As at December 31, 2011 on a combined basis, the Funds were being managed in compliance with the minimum quality requirements, maximum quantity restrictions and all other restrictions imposed on it. Securities lending is allowed, and as such, monies were loaned during the year for the purpose of generating revenues for the Funds. In managing the securities lending program, RBC complied with the constraints described in the legal letter dated January 6, 2003. The ratings were assumed to be the same for all issues of an issuer. Throughout the year, compliance reports are provided by RBC to the CIO on a weekly basis. The analysis of the reports indicates whether the Fund is in compliance. Non-compliant items are usually reviewed and action is taken to remedy the situation as soon as possible.

Transactions

There is a great deal of activity every month through the receipt of new monies, disbursements and rebalancing. The cash management and transactions of the Funds are considerable.

There were approximately net cash inflows of \$16.1 million with approximately \$262.8 million of new monies and approximately \$246.7 million of disbursements in the City of Hamilton Reserve Fund during 2011.

There were approximately net cash outflows of \$0.1 million with approximately \$14.0 million of new monies and approximately \$14.1 million of disbursements in the Hamilton Future Fund.

In terms of transactions, there were approximately \$332.8 million of purchases and \$315.3 million of sales for total net purchases of approximately \$17.5 million in the City of Hamilton Reserve Fund during 2011. As well, there were approximately \$10.5 million of purchases and \$5.8 million of sales for total net purchases of \$4.7 million in the Hamilton Future Fund during 2011.

The records of each transaction are summarized in the custodial statements of RBC on a monthly basis. The statement for all purchases, sales and maturities of securities (i.e. the RBC Audit Continuity Report) is provided to the City and filed/archived for review. Due to the sizable number of transactions, it has been deemed preferable not to include the records and transaction statements in this report. We have reviewed a sample of the transaction statements against the activities recorded in the custodial statements to authenticate the nature of the transactions and the existence of their records.

Aon Hewitt confirms that the date and the name of issue/issuer of each transaction has been recorded. The statements for these purchases and sales have been filed and kept in safekeeping at the following address:

City of Hamilton, City Hall
71 Main Street West, 1st Floor
Hamilton, Ontario
L8P 4Y5

Certificate of Compliance

This Certificate of Compliance applies to the City of Hamilton Reserve Fund and Hamilton Future Fund ("the Funds").

The undersigned hereby confirms that throughout the reporting period of 2011.

1. The management of the Funds was in accordance with all the terms, conditions and guidelines stipulated in the Statement of Investment Policies and Procedures in effect during 2011.
2. The Funds were managed in compliance with the Municipal Act, Eligible Investments, Regulation 438/97.
3. The internal manager(s) who manage the Funds complied at all times and in all respects with the Code of Ethics and Standard of Professional Conduct as promulgated by the CFA Institute.
4. The internal manager(s) managed the Funds assets with the care, diligence and skill that an investment manager of ordinary prudence would use in dealing with the assets of these types of Funds.
5. Details of any non-compliance items, how and why they occurred and the proposed action(s) to be taken to remedy the situation have been shown in Appendix A.

Certified by,



Gerald T. Boychuk
Chief Investments Officer
City of Hamilton