



INFORMATION REPORT

TO:	Chair and Members Audit, Finance and Administration Committee
COMMITTEE DATE:	March 9, 2015
SUBJECT/REPORT NO:	Hamilton Future Fund Investment Performance Report - December 31, 2014 (FCS14064(a)) (City Wide)
WARD(S) AFFECTED:	City Wide
PREPARED BY:	Gerald T. Boychuk 905-546-4321
SUBMITTED BY:	Mike Zegarac General Manager Finance & Corporate Services Department
SIGNATURE:	

Council Direction:

Not applicable.

Information:

The City of Hamilton Future Fund portfolio of investments had an earnings rate of **2.52%** for the 12 months ending December 31, 2014 and an average earnings rate of **3.75%** over the past five years. Bond lending revenues of **\$2,411** are included in the earnings rate of **2.52%**. 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 **\$1.27** million in bond interest, net realized capital gains/losses and lending revenue over the last 12 months ending December 31, 2014. The total return of **\$1.27** million was realized on an investment at an average cost of **\$50,502,048**. The percentage return on investment cost over this period was **2.52%**. Interest, net realized capital gains/losses and lending income over the last five years have averaged **\$2.56** million annually.

As at December 31, 2014, net unrealized capital gain/loss was **\$915,262**; and a net capital loss of **\$44,200** was realized over the past 12 months. The duration of the portfolio of investments was **4.25** years as at December 31, 2014 compared with **3.99** years as at December 31, 2013.

As at December 31, 2014, the market value of the portfolio was **\$41,198,548** compared with **\$51,760,198** as at December 31, 2013, a decrease of **\$10,561,650** primarily attributed to net capital disbursements. Capital disbursements of approximately \$17.7 million for major projects, such as the Pan Am Stadium, McMaster Health Centre and

various smaller projects were funded while loan repayments of approximately \$7.1 million were received.

For the 12 months ending December 31, 2014, the overall return (includes interest, bond lending revenue, realized and unrealized capital gains/losses) was **4.25%** underperforming the benchmark return of **4.34%** by **9** basis points. Over the past five years, the overall return has averaged **2.92%** per annum, underperforming the average benchmark return over the same five-year period of **3.19%** by **27** basis points. The underperformance of the Hamilton Future Fund relative to the benchmark over the last five years is attributed mostly to its overweight position over the last couple of years in shorter term bonds.

The overall returns for the One Fund (offered by the Association of Municipalities of Ontario and the Municipal Finance Officers Association) for the year ending December 31, 2014 were **2.91%** for bonds and **0.86%** 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 **2.71%** or **154** basis points less than the actual return of **4.25%**. Using an average portfolio market value of **\$51,777,211** for the past 12 months, an increase of **1.54%** in overall return resulted in a revenue increase of approximately **\$797,369**. The One Funds underperformance over this period is attributed to its policy of investing in short-term bonds. The decline in interest rates in 2014 was particularly beneficial to bonds with term to maturity over three years, as evidenced by the FTSE TMX Mid-Government Index return of **9.11%** and the FTSE TMX Short Government Index return of **2.76%**.

Table 1 below summarizes the investment return indicators.

Table 1: Investment Return Indicators (for information purposes only)

	12 Months ended 12/31/2014	12 Months ended 12/31/2013	12 Months ended 12/31/2012	12 Months ended 12/31/2011	12 Months ended 12/31/2010
Policy Target	4.34%	0.42%	1.56%	5.76%	3.89%
Hamilton Future Fund Portfolio	4.25%	-0.03%	2.16%	4.33%	3.91%
One Fund – Bonds	2.91%	1.14%	1.55%	4.19%	3.00%
One Fund –Money Mkt.	0.86%	0.95%	1.04%	1.19%	0.65%
FTSE TMX – Short Government	2.76%	1.40%	1.17%	4.62%	3.29%
FTSE TMX – Mid Government	9.11%	-1.20%	3.45%	10.20%	6.51%
Lending Revenue	\$2,411	\$4,865	\$2,318	\$6,697	\$4,046
Earnings Rate (Excludes Capital Gains/Losses)	2.52%	2.80%	4.16%	4.72%	4.57%

A portion of the Hamilton Future Fund continues to be invested in some shorter-term maturities due to the upcoming need to further finance the Tim Horton's Field and West Harbour lands spending requirements.

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

Table 2

CANADIAN INTEREST RATES			
Canada Benchmark Bond	Interest Rate January 2, 2015	Interest Rate January 2, 2014	Interest Rate January 2, 2013
One Month (T-Bill)	0.89%	0.87%	0.91%
2 year	1.00%	1.13%	1.17%
5 year	1.31%	1.93%	1.43%
10 year	1.74%	2.74%	1.87%

Through 2014, short-term rates remained relatively unchanged as did the Bank rate target which held at 1.0%. Longer rates tended to move progressively lower led by the 10 year and 30 year bonds. The decline was based on reduced inflation fears and alleviated concerns of a rate increase by the Bank of Canada. As well, commodity prices in general were moving lower due to slowing global activity particularly in China. This in turn led to increasing downward pressure on the Canadian dollar. The portfolio of bonds, in spite of having a high proportion of very short securities to fund delayed projects, performed better than the benchmark and the One Funds.

The Canadian dollar ended the year at \$0.861, having closed 2013 at \$0.941. This was due to decreasing projected global economic activity and a major slide in commodities especially oil prices.

The Canadian economy is at least temporarily perceived as being vulnerable to reduced exports and business investment. The current market for commodities remains weak and has led to a reduction of 0.25% by the Bank of Canada to a target rate of 0.75% on January 21, 2015. The Bank cut expected growth to 2.1% from 2.4% through the year in its projection for 2015.