



CITY OF HAMILTON
CORPORATE SERVICES DEPARTMENT
Financial Planning & Policy Division

TO:	Chair and Members Audit, Finance and Administration Committee
COMMITTEE DATE:	May 11, 2015
SUBJECT/REPORT NO:	Treasurer's Investment Report 2014 Fiscal Year by Aon Hewitt (FCS15036) (City Wide)
WARD(S) AFFECTED:	City Wide
PREPARED BY:	Gerald T. Boychuk 905-546-4321
SUBMITTED BY:	Mike Zegarac General Manager Finance & Corporate Services
SIGNATURE:	

RECOMMENDATION

That Report FCS15036 "Treasurer's Investment Report 2014 Fiscal Year by Aon Hewitt", as provided to Council, be forwarded to the Hamilton Future Fund Board of Governors for information.

EXECUTIVE SUMMARY

In accordance with the Municipal Act, 2001, the regulations thereunder, and the City's Statement of Investment Policies and Procedures (the "SIPP"), the Treasurer of the City of Hamilton (the General Manager of Finance and Corporate Services) is presenting to Council the City of Hamilton - Reserve Funds Treasurer's Investment Report 2014 Fiscal Year (the "Treasurer's Report"), attached as Appendix "A" to Report FCS15036.

The Treasurer's Report is an investment report for the City's Reserve Fund and the Hamilton Future Fund (the "Funds") for fiscal year 2014, and is prepared by Aon Hewitt on behalf of the Treasurer.

All investments met the eligibility requirements as prescribed by Ontario Regulation 438/97 ("O. Reg. 438/97") and were made in accordance with the investment policies and goals adopted by the City (the City's SIPP), with the exception of one type of investment detailed in Appendix I of the Treasurer's Report and the Devonshire Trust Asset Backed Commercial Paper (ABCP) which was the subject of litigation. The investment detailed in Appendix I of the Treasurer's Report represented 0.76% of the Funds as at December 31, 2013 and was sold on April 14, 2014 to ensure alignment with O. Reg. 438/97.

Performance of the Investments for the Funds

The market rates of return for the twelve month period ending December 31, 2014 were 6.39% for the Reserve Fund and 4.25% for the Hamilton Future Fund. Details were provided in Report FCS14059(a) and Report FCS14064(a) respectively. The Reserve Fund outperformed the benchmark rate of return of 4.34% by 2.05% due to an overweight position in mid-term and long-term bonds, which outperformed short-term bonds as a result of the significant decrease in interest rates in 2014. The Hamilton Future Fund underperformed slightly the benchmark rate of return of 4.34% by 0.09%, attributed mostly to its overweight position in short-term bonds.

Market rate of return is based on security market value, and includes net unrealized gains/losses, net realized gains/losses, and income; and is provided by RBC Investor & Treasury Services (RBC I&TS), the City's custodian.

The market rates of return for the Funds, given above, as well as those for each quarter in fiscal year 2014, were verified (allowing for a tracking error of plus or minus 0.1%) by Aon Hewitt, thereby providing an independent third party review of the Funds' investment performance.

On an average cost basis for fiscal year 2014, the Reserve Fund's annual rate of return was 2.64% and the Hamilton Future Fund's annual rate of return was 2.52%. The rate of return on a cost basis excludes net unrealized gain/losses but includes all income and net realized gains/losses and values the securities using original cost.

Investment in City of Hamilton Securities

During fiscal year 2014, the City was invested in its own long-term securities, which had a market value of \$16.07 million, or a proportion of 2.0% of the total market value of the Reserve Fund as at December 31, 2014. As at December 31, 2013, the proportion was 2.1%. The slight decline in proportion is due to market fluctuation. The City had no transactions in or disposals of its own long-term securities during fiscal year 2014. During fiscal year 2014, the City was not invested in its own short-term securities, which is unchanged compared with the fiscal year 2013.

Alternatives for Consideration – Not Applicable

FINANCIAL – STAFFING – LEGAL IMPLICATIONS (for recommendation(s) only)

Financial: None.

Staffing: None.

Legal: None.

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HISTORICAL BACKGROUND (Chronology of events)

In accordance with O. Reg. 438/97 and the City of Hamilton's SIPP, the Treasurer of the City of Hamilton shall prepare and present to Council each year an investment report on the management of the City's Funds during the prior fiscal year.

The investment report, prepared by Aon Hewitt on behalf of the Treasurer, is the Treasurer's Report and is attached as Appendix "A" to Report FCS15036.

As required by O. Reg. 438/97, the investment report contains at a minimum, the following information:

- a statement about the performance of the investments for the Funds;
- a description of the estimated proportion of the total investments of the City that are invested in its own long-term and short-term securities to the total investment of the municipality and a description of the change, if any, in that estimated proportion since the previous year's report;
- a statement by the Treasurer as to whether or not, in his opinion, all investments are consistent with the investment policies and goals (the City's SIPP) adopted by the City;
- a record of the date of each transaction in or disposal of its own securities, including a statement of the purchase and sale price of each security;
- such other information that Council may require or that, in the opinion of the Treasurer, should be included; and
- a statement by the Treasurer as to whether any of the investments cited in O. Reg. 438/97 Section 8(2.1) fall below the standard prescribed by O. Reg. 438/97 during the period covered by the investment report (in this case fiscal year 2014).

POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS

In accordance with the *Municipal Act, 2001* and the City's SIPP, the Treasurer shall prepare and present to Council each year an investment report on the management of the City's Funds during the prior fiscal year.

RELEVANT CONSULTATION

Aon Hewitt prepared, on behalf of the Treasurer, the Treasurer's Report.

ANALYSIS AND RATIONAL FOR RECOMMENDATION

(Include Performance Measurement/Benchmarking Data if applicable)

Fund Performance (page 4 and page 5 of the Treasurer's Report)

The market rate of return for the Reserve Fund and the Hamilton Future Fund is determined and provided by RBCI&TS. Aon Hewitt verified RBCI&TS' market rate of return (expressed to one decimal place) for each quarter end in fiscal year 2014 and (annualized) longer periods. Aon Hewitt confirms their market rate of return matches that of RBCI&TS for the periods considered, allowing for a tracking error of plus or minus 0.1%. Table 1 presents a summary of these results, and also includes a comparison of the market rate of return with the benchmark rate of return for each period.

Table 1: Fund Performance (%) and Comparison with Benchmark

	Q1 2014 %	Q2 2014 %	Q3 2014 %	Q4 2014 %	1 Year %	3 Year %
Benchmark	1.3	1.0	0.6	1.4	4.3	2.1
Reserve Fund						
RBC I&TS	2.1	1.5	0.8	1.9	6.4	2.9
Aon Hewitt	2.1	1.4	0.8	1.9	6.4	2.9
Difference	0.0	0.1	0.0	0.0	0.0	0.0
Hamilton Future Fund						
RBC I&TS	1.3	0.9	0.5	1.4	4.3	2.1
Aon Hewitt	1.4	0.9	0.5	1.4	4.3	2.1
Difference	-0.1	0.0	0.0	0.0	0.0	0.0
Reserve Fund Minus Benchmark	0.8	0.5	0.2	0.5	2.1	0.8
Hamilton Future Fund (RBCI&TS) Minus Benchmark	0.0	-0.1	-0.1	0.0	0.0	0.0

For the one-year period ending December 31, 2014, the Reserve Fund outperformed the benchmark by 2.1% and the Hamilton Future Fund matched the benchmark, expressed to one decimal place. The outperformance of the Reserve Fund was due to the Fund's overweight position in mid-term and long-term bonds, as longer dated bonds outperformed short-term bonds over the one year period ending December 31, 2014. Interest rates during 2014 decreased significantly; for example, the Government of Canada bond with a term to maturity of ten years decreased from 2.7% at the beginning of the year (2014) to 1.8% at the end of the year (2014).

The benchmark for the Funds is composed of 10% 91-day T-Bills, 62.5% DEX Short-Term All Government Bond Index, and 27.5% DEX All Government Bond Index.

Types of Securities (page 6 and page 7 of the Treasurer's Report)

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The types of securities (and the entities who issue them) which municipalities are permitted to invest in are prescribed by legislation and regulations, including O. Reg. 438/97. Most of these securities and their issuers have been included by the City in its approved list of issuers given in Appendix A (Sector and Issuer Limitations) and Section 4.03 of the City's SIPP. The list of issuers (the "list") given in the Treasurer's Report corresponds with this approved list and Section 4.03 of the City's SIPP.

Bank in Canada is one of the issuers on the list, and refers to a bank listed in Schedule I, II or III to the *Bank Act* (Canada). O. Reg. 438/97 permits municipalities to invest in deposit notes issued by such banks with no prescribed credit rating of the deposit note provided the term to maturity of the deposit note is less than two years on the day that the investment is made. On the other hand, if the term to maturity of the deposit note is greater than two years on the day the investment is made, O. Reg. 438/97 requires that credit rating assigned to the deposit note is at a minimum AA-. The Sector and Issuer Limitations in the City's SIPP will be updated to reflect this requirement.

Portfolio Securities (page 8 to page 11 of the Treasurer's Report)

As at December 31, 2014, the total market value (including net accruals) of the securities for the Reserve Fund was **\$810,387,800.58** (which excludes the market value of the One Equity Portfolio which was \$7,824,484 as at December 31, 2014) and the total market value (including net accruals) of securities for the Hamilton Future Fund was **\$41,198,547.54**.

The investments identified in Appendix I of the Treasurer's Report (attached as Appendix "A" to Report FCS15036), are (senior) deposit notes issued by Canadian Western Bank, a bank listed in Schedule I to the *Bank Act* (Canada), the terms of which provide that the principal and interest shall be fully repaid more than two years but less than or equal to five years after the day the investment was made. Four separate purchases (and no sales) of these deposit notes were made over the period between September 2012 and February 2014. This type of investment was formerly permitted under O. Reg. 438/97. While deposit notes may be purchased from a Schedule I bank listed in the *Bank Act* (Canada), currently under O. Reg. 438/97, a prescribed minimum credit rating is required for deposit notes with a term to maturity of greater than two years on the day of purchase. As this was not the case with the Canadian Western Bank deposit notes, these securities were sold on April 14, 2014. Total gross proceeds of the sale were \$6,277,723.98, and the total original cost price was \$6,187,276.98, thereby giving net proceeds of \$90,447.00.

Devonshire Trust ABCP

The Devonshire Trust ABCP, which defaulted in 2007 and has been the subject of litigation and was not converted to MAV Notes, was settled through external litigation and court order proceeds of \$10.0 million were received on September 17, 2014. The proceeds were split into full cost recovery of \$9,919,000 and \$81,000 in interest to the

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original expected maturity date of September 26, 2007. The CCAA reserves remain and have grown to \$69.3 million as of December 31, 2014 and its disbursement is expected within the next 3 years depending upon tax liabilities and legal costs incurred. The court appointed monitor of Deloitte has estimated the City's pro-rata share at 1.195% and depending upon expenses incurred the low subsequent distribution is expected to be \$1,547 and the high distribution \$774,471.

Investments in City of Hamilton Securities

During fiscal year 2014, the City was invested in its own long-term securities, which had a total market value of \$16.07 million, or a proportion of 2.0% of the total market value of the Reserve Fund as at December 31, 2014. As at December 31, 2013, the proportion was 2.1%. The slight decrease in proportion is attributed to market fluctuation. The City had no transactions in or disposals of its own long-term securities during fiscal year 2014. During fiscal year 2014, the City was not invested in its own short-term securities - unchanged compared with fiscal year 2013.

Investment in One Equity Portfolio

In addition to the securities listed, the City also invests in shares of the One Equity Portfolio for the Reserve Fund; the investment had a market value of \$7,824,484 and a book value of \$5,495,826 as at December 31, 2014.

Restrictions (page 12 and page 13 of the Treasurer's Report)

Table 2, below, reproduced from the Treasurer's report, shows that as at December 31, 2014, on a combined basis, the Funds were being managed in accordance with the minimum quality requirements, maximum quantity restrictions and all other imposed restrictions, with the exception of the one type of investment detailed in Appendix 1 of the Treasurer's Report and the Devonshire Trust ABCP which was the subject of litigation.

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Table 2: 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 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: The money raised by issuing the security is to be used for school purposes	Yes
Permitted ranges	(%)
Federal issues	0-100
Provincial holdings in aggregate	0-100
Single province exposure	0-50
Individual non-federal/non provincial holdings*	0-10
Non-federal/non provincial holdings in aggregate	0-50
Municipal issues*	
- individual muni issue rated "AAA"	0-10
- individual muni issue rated "AA"	0-10
- individual muni issue rated "A"	0-5
Municipal holdings in aggregate	0-30
Short-term securities	0-50
Portfolio duration	1-6 Years

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

Table 3, below, not included in the Treasurer's Report, shows as at December 31, 2014 the City's credit exposure (and maximum limit) for the Funds to the approved issuers (or sectors), given in Appendix A of the City's SIPP.

Table 3: Credit Exposure¹ (%) - As at December 31, 2014

<i>Issuer or Sector</i>	<i>Reserve Fund</i>	<i>Hamilton Future Fund ²</i>	<i>Combined Funds</i>	<i>Maximum Limit %</i>
Cash or STIF	0%	1%	0%	
Canada				
Direct	1%	0%	1%	100%
Guarantee	4%	0%	4%	25%
Provinces				
Ontario	13%	21%	13%	50%
Other	33%	33%	33%	50%
Municipalities				
Hamilton	2%	0%	2%	25%
Other	18%	3%	17%	30%
Banks				
Schedule I	28%	42%	29%	50%
Asset Backed Securities	0%	0.0%	0%	25%
Corp. Bonds	0%	0.0%	0%	15%
Comm. Paper				
Corp. Paper and ABCP	0%	0.0%	0%	20%
One Equity Portfolio	1%	0.0%	1%	10%
Total	100%	100%	100%	

Notes to Table 3:

¹ Credit Exposure refers to the par value of holdings in individual issuers or sectors as a percentage of the total par value of holdings in the fund.

² For the Hamilton Future Fund, Credit Exposure does not reflect the shares of the Hamilton Utilities Corporation, which are held in the Hamilton Future Fund custodial account with RBC I&TS.

Transactions (page 14 of the Treasurer's Report)

During fiscal year 2014, the total dollar amount of purchases and sales of securities in the Reserve Fund was approximately \$220.4 million, with total net purchases of \$106.6 million.

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During fiscal year 2014, the total dollar amount of purchases and sales of securities in the Hamilton Future Fund was approximately \$175.3 million, with total net purchases of \$130.5 million (including transactions of cash to and from the short-term custodial account).

Certificate by CIO (page 15 of the Treasurer's Report)

The CIO has certified on page 15 of the Treasurer's Report that the Funds were managed in compliance with the *Municipal Act, 2001*, and in accordance with the terms, conditions and guidelines stipulated in the City's SIPP, with the exception of one type of investment identified in Appendix I of the Treasurer's Report (attached as Appendix "A" to Report FCS15036) and the Devonshire Trust ABCP which was the subject of litigation.

ALTERNATIVES FOR CONSIDERATION

(Include Financial, Staffing, Legal and Policy Implications and Pros and Cons for each alternative)

Not Applicable.

ALIGNMENT TO THE 2012 – 2015 STRATEGIC PLAN

Strategic Priority #2

Valued & Sustainable Services

WE deliver high quality services that meet citizen needs and expectations, in a cost effective and responsible manner.

Strategic Objective

2.1 Implement processes to improve services, leverage technology and validate cost effectiveness and efficiencies across the Corporation.

APPENDICES AND SCHEDULES ATTACHED

Appendix "A" to Report FCS15036

City of Hamilton—Reserve Funds Treasurer's Investment Report 2014 Fiscal Year

March 2015

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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, the management of the Funds was made in accordance with all the terms, conditions and guidelines stipulated in the SIP&P in effect during 2014.

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 and Future Fund Performance

The returns of the Funds are determined by RBC Investor & Treasury Services ("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 period 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 FTSE TMX Canada All Government Short Term Bond Index, 27.5% of the FTSE TMX Canada All Government Bond Index and 10.0% of FTSE TMX Canada 91-Day Treasury-Bill Index.

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

The performance returns of the Funds over each of the quarters of 2014, and the one-, two- and three- year periods ending December 31, 2014 are as follows:

City of Hamilton Reserve Fund—Performance %

	Q1 2014	Q2 2014	Q3 2014	Q4 2014	One Year	Two Years (annualized)	Three Years (annualized)
RBC	2.1	1.5	0.8	1.9	6.4	2.8	2.9
Aon Hewitt	<u>2.1</u>	<u>1.4</u>	<u>0.8</u>	<u>1.9</u>	<u>6.4</u>	<u>2.8</u>	<u>2.9</u>
Difference	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Benchmark	1.3	1.0	0.6	1.4	4.3	2.4	2.1
Value Added (RBC)	0.8	0.5	0.2	0.5	2.1	0.4	0.8

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 6.4% outperformed the benchmark return of 4.3% by 210 basis points. This outperformance was due to the Fund's overweight position in mid- and long-term bonds, as longer dated bonds outperformed short-term issues over the last year.

Hamilton Future Fund—Performance %

	Q1 2014	Q2 2014	Q3 2014	Q4 2014	One Year	Two Years (annualized)	Three Years (annualized)
RBC	1.3	0.9	0.5	1.4	4.3	2.1	2.1
Aon Hewitt	<u>1.4</u>	<u>0.9</u>	<u>0.5</u>	<u>1.4</u>	<u>4.3</u>	<u>2.1</u>	<u>2.1</u>
Difference	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Benchmark	1.3	1.0	0.6	1.4	4.3	2.4	2.1
Value Added (RBC)	0.0	-0.1	-0.1	0.0	0.0	-0.3	0.0

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% matched the benchmark return.

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 some of the permitted investments under the Municipal Act. The Approved List including Section 4.03 of the SIP&P is as follows:

Bonds, Debentures, Promissory Notes, Other Evidence of Indebtedness Issued by or Guaranteed by

Government of Canada
Canadian Provincial Government
Government of Canada Agency
Canadian Provincial Agency
Country other than Canada
Canadian Municipality, including the City of Hamilton
School Board in Canada
Municipal Finance Authority of British Columbia
Canadian Corporation
Bank in Canada
Ontario Strategic Infrastructure Financing Authority (OSIFA)
International Bank for Reconstruction
Inter-American Development Bank
Supranational Financial Institution
Supranational Governmental Organization

Deposit Receipts, Deposit Notes, Certificate of Deposits, Acceptances Issued by or Guaranteed by

Bank in Canada

Asset Backed Securities

Asset Backed Commercial Paper ("ABCP")
Asset Backed Securities ("ABS")

Forward Rate Agreements

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

Grandfathered Investments

Non-Bank ABCP and Master Asset Vehicle Securities as per the
Municipal Act. See Pg 27 of the City's SIP&P.

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

**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 2014 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 2014 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 Issued by or Guaranteed by**

Government of Canada
Canadian Provincial Government
Government of Canada Agency
Canadian Provincial Agency
Canadian Municipality, including the City of Hamilton
Municipal Finance Authority of British Columbia
Bank in Canada

**Deposit receipts, Deposit Notes, Certificate of Deposits,
Acceptances Issued by or Guaranteed by**

Bank in Canada

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

One Equity Portfolio

Asset-backed Commercial Paper

Devonshire Trust ABCP (repaid in full through CCAA court actions on
September 17, 2014)

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 Issued by or Guaranteed by**

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 Issued by or Guaranteed by**

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 2014 were all part of the Approved List.

Portfolio Securities as at December 31, 2014

City of Hamilton Reserve Fund

Below are The City of Hamilton Reserve Fund securities and credit ratings as at December 31, 2014. In addition to the listings below, the Reserve Fund also held shares of the One Equity Portfolio, with a market value of \$7,824,484 and a book value of \$5,495,826.

As of December 31, 2014, The City of Hamilton Reserve Fund held \$16.07 million or 2.0% of the Fund in City of Hamilton securities. Over the last year, the market value of the City of Hamilton securities decreased by \$0.05 million from \$16.12 million as of December 31, 2013. There were no additional transactions of the City of Hamilton securities over the last year and the decrease in market value was due to market fluctuation.

Date	Issuer Name	Annual Coupon Rate	Maturity Date	Market Price	S&P Rating	Portfolio Market Value	
						(\$)	(%)
Federal and Federal Guarantee Bonds							
12/31/2014	Government of Canada	2.75%	1-Jun-22	107.9886	AAA	10,798,862.60	1.33
12/31/2014	Canada Housing Trust	2.65%	15-Mar-22	104.4004	AAA	22,968,088.00	2.83
12/31/2014	Canada Housing Trust	2.40%	15-Dec-22	102.2974	AAA	10,229,739.40	1.26
Provincial and Provincial Guarantee Bonds							
12/31/2014	Financement Quebec	3.50%	1-Dec-17	105.8610	A+	5,293,048.90	0.65
12/31/2014	Financement Quebec	2.45%	1-Dec-19	102.9100	A+	5,145,499.30	0.63
12/31/2014	Municipal Finance Authority of British Columbia	4.15%	1-Jun-21	112.0177	AAA	15,682,480.52	1.94
12/31/2014	Municipal Finance Authority of British Columbia	3.00%	1-Jun-16	102.5718	AAA	18,103,924.29	2.23
12/31/2014	Province of Alberta	1.85%	1-Sep-16	101.1780	AAA	10,117,800.00	1.25
12/31/2014	Province of Alberta	2.55%	15-Dec-22	102.3165	AAA	20,463,294.80	2.53
12/31/2014	Province of Alberta	2.90%	20-Sep-29	100.3327	AAA	4,514,969.43	0.56
12/31/2014	Province of Alberta	1.75%	15-Jun-17	101.1616	AAA	10,116,155.90	1.25
12/31/2014	Province of Alberta	2.00%	1-Jun-19	101.7304	AAA	10,173,044.70	1.26
12/31/2014	Province of British Columbia	2.70%	18-Dec-22	103.4314	AAA	8,274,515.20	1.02
12/31/2014	Province of British Columbia	3.70%	18-Dec-20	110.1537	AAA	11,015,370.10	1.36
12/31/2014	Province of British Columbia	2.70%	18-Dec-20	104.4690	AAA	4,178,760.00	0.52
12/31/2014	Province of British Columbia	3.25%	18-Dec-21	107.5558	AAA	23,662,274.90	2.92
12/31/2014	Province of British Columbia	2.25%	1-Mar-19	102.8091	AAA	4,112,363.92	0.51
12/31/2014	Province of Manitoba	1.85%	1-Jun-17	101.3997	AA	15,209,960.70	1.88
12/31/2014	Province of Manitoba	4.30%	1-Mar-16	103.6703	AA	5,183,515.50	0.64
12/31/2014	Province of Manitoba	3.85%	1-Dec-21	110.8346	AA	22,166,915.60	2.74
12/31/2014	Province of Manitoba	2.55%	2-Jun-23	101.0765	AA	11,623,799.69	1.43
12/31/2014	Province of New Brunswick	3.35%	3-Dec-21	107.1346	A+	5,356,727.80	0.66
12/31/2014	Province of New Brunswick	2.85%	2-Jun-23	102.6635	A+	13,525,913.75	1.67

12/31/2014	New Brunswick Municipal Finance Corporation	1.95%	30-Nov-16	100.7270	A+	2,103,179.76	0.26
12/31/2014	New Brunswick Municipal Finance Corporation	2.90%	14-Jun-21	102.4850	A+	3,461,943.30	0.43
12/31/2014	New Brunswick Municipal Finance Corporation	3.05%	20-Nov-20	103.5950	A+	3,430,030.45	0.42
12/31/2014	New Brunswick Municipal Finance Corporation	3.30%	15-May-23	103.6260	A+	3,583,387.08	0.44
12/31/2014	New Brunswick Municipal Finance Corporation	2.80%	20-Nov-19	102.7570	A+	3,308,775.40	0.41
12/31/2014	New Brunswick Municipal Finance Corporation	2.95%	8-Dec-23	100.4520	A+	4,629,832.68	0.57
12/31/2014	Province of Ontario	3.15%	2-Jun-22	105.7802	AA-	44,427,668.88	5.48
12/31/2014	Province of Ontario	2.10%	8-Sep-18	102.0135	AA-	15,302,022.00	1.89
12/31/2014	Province of Ontario	2.10%	8-Sep-19	101.5586	AA-	25,389,652.25	3.13
12/31/2014	Province of Ontario	2.85%	2-Jun-23	102.9560	AA-	10,295,600.20	1.27
12/31/2014	Province of Ontario	Floating	28-Aug-18	100.6240	AA-	6,037,440.00	0.75
12/31/2014	Province of Prince Edward Island	3.70%	2-Sep-20	108.7721	A	4,731,585.44	0.58
12/31/2014	Province of Quebec	3.50%	1-Dec-22	107.8707	A+	14,023,187.10	1.73
12/31/2014	Province of Quebec	3.75%	1-Sep-24	109.1239	A+	5,456,196.60	0.67
12/31/2014	Province of Quebec	3.00%	1-Sep-23	103.6220	A+	2,072,440.00	0.26
12/31/2014	Hydro Quebec	Floating	3-Sep-18	100.7120	A+	16,113,920.00	1.99
12/31/2014	Province of Saskatchewan	1.95%	1-Mar-19	101.6475	AAA	2,032,949.40	0.25
12/31/2014	Province of Saskatchewan	3.20%	3-Jun-24	106.2754	AAA	14,878,556.98	1.84

Municipal Bonds

12/31/2014	City of Hamilton	4.65%	30-Nov-17	108.0550	AA	2,809,430.00	0.35
12/31/2014	City of Hamilton	5.05%	19-Jun-21	111.9510	AA	3,423,461.58	0.42
12/31/2014	City of Hamilton	6.05%	12-Jul-15	102.5756	AA	3,322,422.81	0.41
12/31/2014	City of Hamilton	4.95%	31-Mar-18	109.5290	AA	4,786,417.30	0.59
12/31/2014	City of Hamilton	6.75%	19-Jul-16	107.9140	AA	1,729,861.80	0.21
12/31/2014	Region of Halton	5.20%	24-Sep-16	106.4800	AAA	738,971.20	0.09
12/31/2014	Region of Halton	3.30%	2-Jun-23	104.0480	AAA	6,607,048.00	0.82
12/31/2014	City of London	2.40%	3-Sep-17	100.9820	Aaa (Moody's)	4,841,077.08	0.60
12/31/2014	City of London	2.35%	9-May-19	100.5920	Aaa (Moody's)	1,005,920.00	0.12
12/31/2014	City of Montreal	3.50%	1-Sep-23	105.6162	A+	8,132,449.94	1.00
12/31/2014	City of Ottawa	2.30%	22-Oct-17	101.7120	AA+	4,835,388.48	0.60
12/31/2014	City of Ottawa	3.05%	19-Oct-19	104.0930	AA+	2,602,325.00	0.32
12/31/2014	City of Peterborough	4.20%	5-Mar-18	108.0510	AA-	2,470,045.86	0.30
12/31/2014	City of Peterborough	4.45%	5-Mar-19	110.4960	AA-	2,525,938.56	0.31
12/31/2014	City of Saskatoon	4.40%	27-Jun-17		AAA		0.00
12/31/2014	City of Quebec	2.30%	4-Dec-18	100.2450	Aa2 (Moody's)	4,009,800.00	0.49
12/31/2014	City of Saskatoon	4.40%	27-Jun-17	106.7680	AAA	1,011,092.96	0.12
12/31/2014	City of Saskatoon	4.35%	27-Jun-16	104.3370	AAA	947,379.96	0.12
12/31/2014	City of Saskatoon	4.45%	27-Jun-18	108.9230	AAA	1,076,159.24	0.13
12/31/2014	City of Saskatoon	4.55%	27-Jun-19	111.0000	AAA	1,144,410.00	0.14

12/31/2014	City of Toronto	3.50%	12-Jun-21	107.3672	AA	13,957,735.35	1.72
12/31/2014	City of Toronto	4.95%	27-Jun-18	111.1659	AA	2,779,147.28	0.34
12/31/2014	City of Vancouver	3.45%	2-Dec-21	107.1243	AA	8,569,940.48	1.06
12/31/2014	City of Vancouver	3.75%	24-Oct-23	109.0814	AA	4,363,256.88	0.54
12/31/2014	City of Waterloo	2.75%	6-Nov-22	100.0330	Aaa (Moody's)	5,098,682.01	0.63
12/31/2014	City of Waterloo	3.55%	30-Nov-18	106.6180	Aaa (Moody's)	6,278,734.02	0.77
12/31/2014	City of Waterloo	3.00%	21-Nov-19	101.8221	Aaa (Moody's)	4,478,137.89	0.55
12/31/2014	City of Waterloo	2.30%	24-Oct-17	102.0600	Aaa (Moody's)	5,361,211.80	0.66
12/31/2014	City of Winnipeg	6.25%	17-Nov-17	112.8517	AA	564,258.54	0.07
12/31/2014	Region of Peel	3.50%	1-Dec-21	107.1622	AAA	12,859,460.52	1.59
12/31/2014	Region of York	4.00%	30-Jun-21	110.3247	AAA	7,722,730.68	0.95

Corporate Bonds

12/31/2014	Bank of Montreal	4.61%	10-Sep-25	115.2092	A+	4,032,320.50	0.50
12/31/2014	Bank of Montreal	3.49%	10-Jun-16	102.6391	A+	6,774,183.17	0.84
12/31/2014	Bank of Montreal	2.96%	2-Aug-16	102.0567	A+	3,571,985.38	0.44
12/31/2014	Bank of Montreal	3.10%	10-Mar-16	101.7971	A+	4,071,883.64	0.50
12/31/2014	Bank of Montreal	3.93%	27-Apr-15	100.7893	A+	5,039,464.55	0.62
12/31/2014	Bank of Montreal	5.45%	17-Jul-17	109.0846	A+	11,999,310.07	1.48
12/31/2014	Bank of Montreal	2.39%	12-Jul-17	101.5234	A+	4,060,935.44	0.50
12/31/2014	Bank of Montreal	2.24%	11-Dec-17	101.0793	A+	2,021,585.60	0.25
12/31/2014	Bank of Montreal	3.21%	13-Sep-18	104.3067	A+	5,215,332.55	0.64
12/31/2014	Bank of Montreal	2.84%	4-Jun-20	102.8016	A+	2,056,031.70	0.25
12/31/2014	Bank of Montreal	3.40%	23-Apr-21	105.5676	A+	10,556,760.00	1.30
12/31/2014	Bank of Nova Scotia	2.87%	4-Jun-21	102.4460	AA-	4,097,839.24	0.51
12/31/2014	Bank of Nova Scotia	4.10%	8-Jun-17	105.5657	AA-	5,278,286.45	0.65
12/31/2014	Bank of Nova Scotia	3.27%	11-Jan-21	104.7962	AA-	5,239,808.35	0.65
12/31/2014	Bank of Nova Scotia	2.75%	13-Aug-18	102.7121	AA-	2,054,242.06	0.25
12/31/2014	Bank of Nova Scotia	3.34%	25-Mar-15	100.4483	AA-	11,049,316.63	1.36
12/31/2014	Canadian Imperial Bank of Commerce	2.35%	18-Oct-17	101.3515	A+	9,222,987.87	1.14
12/31/2014	Canadian Imperial Bank of Commerce	3.95%	14-Jul-17	105.3396	A+	16,432,972.14	2.03
12/31/2014	Canadian Imperial Bank of Commerce	2.65%	8-Nov-16	101.7745	A+	7,124,276.53	0.88
12/31/2014	Canadian Imperial Bank of Commerce	3.40%	14-Jan-16	101.8983	A+	9,680,338.31	1.19
12/31/2014	Royal Bank of Canada	2.26%	12-Mar-18	100.9916	AA-	4,039,662.32	0.50
12/31/2014	Royal Bank of Canada	3.66%	25-Jan-17	103.8731	AA-	10,387,307.10	1.28
12/31/2014	Royal Bank of Canada	2.77%	11-Dec-18	102.6528	AA-	10,265,283.30	1.27
12/31/2014	Royal Bank of Canada	2.89%	11-Oct-18	103.0608	AA-	5,153,041.00	0.64
12/31/2014	Royal Bank of Canada	Floating	9-Apr-19	99.9393	AA-	4,996,965.00	0.62
12/31/2014	Royal Bank of Canada	2.25%	5-Oct-17	100.8700	AA-	1,008,700.00	0.12
12/31/2014	Royal Bank of Canada	3.03%	26-Jul-16	102.1172	AA-	5,105,857.50	0.63
12/31/2014	Royal Bank of Canada	4.93%	16-Jul-25	117.7194	AA-	5,885,969.30	0.73

Appendix F to
Hamilton Future Fund
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12/31/2014	Toronto Dominion Bank	2.95%	2-Aug-16	102.0789	AA-	6,124,735.08	0.76
12/31/2014	Toronto Dominion Bank	2.45%	2-Apr-19	101.4542	AA-	7,101,790.64	0.88
12/31/2014	Toronto Dominion Bank	Floating	21-Apr-16	100.0050	AA-	10,000,500.00	1.23
12/31/2014	Toronto Dominion Bank	2.56%	24-Jun-20	101.3297	AA-	2,857,497.57	0.35
12/31/2014	Toronto Dominion Bank	2.43%	15-Aug-17	101.6050	AA-	24,303,906.43	3.00
					Net Accruals	4,328,437.42	0.53
Total Fund						810,387,800.58	100.00

City of Hamilton Future Fund

Below are the Hamilton Future Fund securities and credit ratings as at December 31, 2014. 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							
12/31/2014	Financement Quebec	2.45%	1-Dec-19	102.9100	A+	3,601,849.51	8.74
12/31/2014	Province of British Columbia	2.70%	18-Dec-22	103.4314	AAA	4,447,551.92	10.80
12/31/2014	Province of New Brunswick	3.10%	30-Nov-22	102.8270	AA-	2,056,540.00	4.99
12/31/2014	Province of Ontario	3.15%	2-Jun-22	105.7802	AA-	1,057,801.64	2.57
12/31/2014	Province of Ontario	Floating	3-Dec-18	100.5620	AA-	3,519,670.00	8.54
12/31/2014	Province of Ontario	2.85%	2-Jun-23	102.9560	AA-	4,118,240.08	10.00
12/31/2014	Province of Quebec	Floating	19-Dec-18	100.7060	A+	1,510,590.00	3.67
Municipal Bonds							
12/31/2014	City of Montreal	5.00%	1-Dec-18	112.0485	A+	1,120,485.29	2.72
Corporate Bonds							
12/31/2014	Bank of Montreal	3.49%	10-Jun-16	102.6391	A+	923,752.25	2.24
12/31/2014	Bank of Montreal	5.45%	17-Jul-17	109.0846	A+	3,272,539.11	7.94
12/31/2014	Bank of Nova Scotia	3.34%	25-Mar-15	100.4483	AA-	2,008,966.66	4.88
12/31/2014	Canadian Imperial Bank of Commerce	2.65%	8-Nov-16	101.7754	A+	3,053,261.37	7.41
12/31/2014	Canadian Imperial Bank of Commerce	2.35%	18-Oct-17	101.3515	A+	912,163.64	2.21
12/31/2014	Royal Bank of Canada	2.25%	5-Oct-17	100.8700	AA-	2,017,400.00	4.90
12/31/2014	Royal Bank of Canada	2.26%	12-Mar-18	100.9916	AA-	1,009,915.58	2.45
12/31/2014	Toronto Dominion Bank	2.948%	2-Aug-16	102.0789	AA-	3,981,077.80	9.66
Equivalents							
12/31/2014	Province of Saskatchewan T-Bill			99.8560		748,920.00	1.82
12/31/2014	Province of Saskatchewan T-Bill			99.8710		1,298,323.00	3.15
12/31/2014	Classified STIF			10.0000		322,195.09	0.78
					Net Accruals	217,304.60	0.53
Total Fund						41,198,547.54	100.00

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 the money raised by issuing the security is to be used for school purposes.	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, 2014 on a combined basis, the Funds were being managed consistent 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, reports are provided by RBC to the CIO on a weekly basis, showing the securities that the City invested in for the Reserve Fund together with each security's market value. The analysis of the reports indicates whether the securities in the Funds are consistent with the terms, conditions and guidelines stipulated in the SIP&P. Securities that are not consistent with the terms, conditions and guidelines stipulated in the SIP&P are reviewed and action is taken to remedy the situation as soon as possible.

Transactions

There is activity every month through the receipt of new monies, disbursements and rebalancing.

There were approximately net cash inflows of \$3.3 million with approximately \$127.3 million of new monies and approximately \$124.0 million of disbursements in the City of Hamilton Reserve Fund during 2014. There were approximately net cash outflows of \$12.7 million with approximately \$7.1 million of new monies and approximately \$19.8 million of disbursements in the Hamilton Future Fund.

In terms of transactions, there were approximately \$163.5 million of purchases (34 transactions) and \$56.9 million of sales (11 transactions) for total net purchases of approximately \$106.6 million in the City of Hamilton Reserve Fund during 2014. As well, there were approximately \$152.9 million of purchases (99 transactions) and \$22.4 million of sales (32 transactions) for total net purchases of \$130.5 million in the Hamilton Future Fund during 2014. The Hamilton Future Fund transactions include the STIF cashflow transactions.

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 by Chief Investment Officer

This Certificate by Chief Investment Officer applies to the City of Hamilton Reserve Fund and Hamilton Future Fund ("the Funds").

The undersigned hereby confirms that throughout the reporting period of 2014.

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 2014 with the exception of one type of investment detailed in Appendix I and the Devonshire Trust (ABCP) which was the subject of litigation.
2. The Funds were managed in compliance with the Municipal Act, Eligible Investments, Regulation 438/97 with the exception of one type of investment detailed in Appendix I and the Devonshire Trust (ABCP) which was the subject of litigation.
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.

Certified by,



Gerald T. Boychuk
Chief Investments Officer
City of Hamilton

Appendix I – Canadian Western Bank Deposit Notes Investment

The following purchases of the Canadian Western Bank deposit notes in the Reserve Fund and Hamilton Future Fund do not meet the eligibility requirements as prescribed by Ontario Regulation 438/97. The purchases of Canadian Western Bank deposit notes in the Reserve Fund and the Hamilton Future Fund had, at the time of purchase, a term to maturity greater than two years and was rated A (low) by Dominion Bond Rating Service. While securities of this type can be purchased, they must have a term to maturity less than two years at the time of purchase.

Reserve Fund

Date of Purchase	Issuer Name	Annual Coupon Rate	Maturity Date	Par Value
19-Mar-13	Canadian Western Bank	2.531%	22-Mar-18	1,125,000
09-Jan-14	Canadian Western Bank	3.077%	14-Jan-19	1,000,000
14-Feb-14	Canadian Western Bank	3.077%	14-Jan-19	2,615,000

Hamilton Future Fund

Date of Purchase	Issuer Name	Annual Coupon Rate	Maturity Date	Par Value
11-Sep-12	Canadian Western Bank	2.378%	14-Sep-15	1,100,000
19-Mar-13	Canadian Western Bank	2.531%	22-Mar-18	300,000

The Canadian Western Bank Deposit Notes held in the Reserve and Hamilton Future Funds were sold on April 14, 2014.