INFORMATION REPORT

TO:	Chair and Members HMRF/HWRF Pension Administration Sub-Committee
COMMITTEE DATE:	December 3, 2015
SUBJECT/REPORT NO:	Master Trust Pension Investment Performance Report December 31, 2014 (FCS14070 (a)) (City Wide)
WARD(S) AFFECTED:	City Wide
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Council Direction:

Not Applicable.

Information:

Attached, as Appendix "A" to Report FCS14070(a), is Aon Hewitt's investment performance report for the Hamilton Municipal Retirement Fund (HMRF), the Hamilton-Wentworth Retirement Fund (HWRF) and the Hamilton Street Railway (HSR), as at December 31, 2014. Together, the three pension funds make up the Master Trust, which is referred to as the "Plan" throughout Report FCS14070(a).

As at December 31, 2014, the market value of the assets of the Plan was $330.5 million, an increase of $14.2 million compared with $316.3 million as at December 31, 2013.

The funded ratio decreased to 68.4% which increased the required change in funded ratio to 4.6% in order to, on a wind-up or transfer ratio basis, reach the next trigger point of 73% funded. When reached the bond holdings would be increased, while equity holdings would be reduced as per the "Dynamic Investment Policy". The current ratio of 68.4% requires no rebalancing.

For the one-year period ending December 31, 2014, the Plan's return was **12.0%,** underperforming its benchmark return of **13.7%** by **1.7%**. The benchmark return is based on the benchmark asset mix for the Plan. The Plan return overall of 12.0% outperformed the OMERS Capital Markets plan return of **11.1 %** by **0.9 %.**

Table 1 below shows the Plan's one-year (ending December 31 in each year) return for the last five years.

Table 1

	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
Plan Return	**12.0%**	**13.0%**	**10.5%**	**0.5%**	**9.6%**
Benchmark	13.7%	9.7%	8.3%	0.4%	10.3%

The Plan's performance may be compared to the return earned in the broader pension market in Canada. Attached as Appendix "B" to Report FCS14070(a), RBC Investor & Treasury Service reports its universe of pension funds, which totals C$520 billion, had a median return of **11.9%** in the year ended December 31, 2014. The Plan's return of **12.0%** outperformed the median return by **0.1%.** Fixed income and Canadian equity returns were major contributors to the Plan's overall return.

Table 2 below compares the Plan's returns to OMERS fund's returns over one, five and ten year periods, all ending December 31, 2014.

Table 2

	Dec. 31, 2014 One-Year Return	5 Year Annualized Return	10 Year Annualized Return
Plan (HSR,HMRF,HWRF)	**12.0%**	**9.0%**	**6.7%**
Plan Benchmark	13.7%	8.4%	6.7%
OMERS (Gross)	**10.7%**	**8.4%**	**7.5%**
OMERS Benchmark (Gross)	8.1%	9.1%	7.2%
OMERS Capital Markets	**11.1%**	**5.9%**	**4.7%**
OMERS Capital Markets Benchmark	7.3%	8.1%	5.5%

The Plan's ten-year gross annualized return for the period ending December 31, 2014 is 6.7%, equalling the benchmark return of 6.7% and underperforming OMERS return of 7.5 % by 0.8 %.

The Plan's five-year gross annualized return for the period ending December 31, 2014 is 9.0%, exceeding the benchmark return of 8.4% by 0.6% and outperforming OMERS return of 8.4% by 0.6%.

OMERS return in public market securities (OMERS Capital Markets in Table 2 above) is 11.1% for the one-year ending December 31, 2014 and 5.9% annualized over a five-year period ending December 31, 2014. The Plan outperformed OMERS by 0.9% over the one-year period, and by 3.1% over the five-year period with returns of 12.0% and 9.0% respectively.

OMERS invests in public market securities (such as public equities and bonds) and in private market investments (such as private equity, real estate, infrastructure and strategic investments). The Plan invests only in public market securities. Private market investments require expertise developed over many years, have limited liquidity, require significant administrative costs, and current valuations may or may not be realized.

Asset Mix:

Table 3 below shows the percentage of Plan assets in each asset class at December 31, 2014 compared to December 31, 2013.

Table 3

Percentage of Plan Assets in Each Asset Class

Asset Class	Dec. 31/14	Dec. 31/13	Change
Canadian Equity	29.2%	38.5%	-9.3%
Global Equity	30.0%	29.0%	+1.0%
Total Equity	59.2%	67.5%	-8.3%
Canadian Fixed Income	40.8%	32.5%	+8.3%
Total Fixed Income	40.8%	32.5%	+8.3%
(Cash in Fixed Income)	1.4%	0.4%	

Total equity decreased by 8.3% to 59.2% and total fixed income increased by a corresponding 8.3% to 40.8%. Global equity increased by 1.0% to 30.0%. Canadian equity holdings decreased by 9.3% to 29.2%.

Canadian fixed income increased to 40.8%. The year saw equity returns domestically and internationally ranging from 8.6% to 15.1%. The fixed income portfolios incurred significant returns for the year ranging from 13.0% to 16.8% due to the decline in long-term rates.

The Master Trust at year-end is within its prescribed boundaries set by the Plan's investment policy given the funded ratio at 68.4% (59% equity and 41% fixed income).

The Canadian equities held between Guardian and Letko totaled 29.2%, while the global equities totaled 30% just under the target weight of 31%. The equity fixed income ratio does not need rebalancing.

Managers' Performance:

Managers' investment performance relative to their benchmark and peer group is summarized in Table 4 below. One-year rates of return, percentages of plan assets, and rankings in terms of quartile performance are as at December 31, 2014.

Table 4

Managers' Performance

Period Ending December 31, 2014	Manager Return	Benchmark Return	Quartile Performance 1 Year	4 Year
Canadian Equity:				
Guardian	13.0%	10.6%	2	2
Letko	11.5%	10.6%	2	1
Global Equity:				
Brandes	15.1%	14.4%	2	2
Aberdeen (1)	10.6%	14.4%	4	4
GMO (2)	8.6%	14.4%	4	N/A
Fixed Income:				
TDAM Long Bonds (3)	16.8%	17.5%	3	N/A
TDAM Real Return Bonds(3)	13.0%	13.2%	N/A	N/A

(1) Engaged in April 2010
(2) Engaged in July 2010
(3) Toronto Dominion Asset Management (TDAM) engaged in March 2012.

Guardian, one of the two Canadian active equity managers, had a return of 13.0% and outperformed its benchmark return of 10.6% by 2.4%. Its performance is second quartile (27%) over the one-year and second quartile (44%) over the four-year period. Guardian manages 10.4% of Plan assets and added value of 2.4%.

Letko, the second Canadian active equity manager, had a return of 11.5% and outperformed its benchmark return of 10.6% by 0.9%. Its performance is second quartile over the one year period and first quartile over the four-year period (49% and 4% respectively). Letko manages 18.8% of Plan assets and added value of 0.9%.

Brandes, one of the three active global equity managers, had a return of 15.1% and outperformed the benchmark return of 14.4% by 0.7%. Brandes manages 4.6% of Plan assets. It is a deep-value manager with historically volatile returns, typically beating the benchmark by a significant margin in some years which off-sets some significant underperformance in other years. Brandes outperformed relative to the other two global equity managers, Aberdeen and GMO by 4.5% and 6.5% respectively. Brandes one-year return was second quartile (32%) and the four year return was second quartile (40%) and added value of 0.7% for the year.

Aberdeen is the second active global equity manager. Its return was 10.6% underperforming the benchmark return of 14.4% by 3.8%. Aberdeen's performance is fourth quartile (79%) over the one-year period and added value of -3.8%. Aberdeen manages 13.4% of Plan assets. The firm's performance is due, for the most part, to an underweight in the U.S. equity markets.

GMO is the third active global equity manager. Its return was 8.6%, underperforming the benchmark return of 14.4% by 5.8%. GMO's performance is fourth quartile (89%) over the one-year period and added value of -5.8%. GMO manages 12.0% of Plan assets.

TDAM Long Bonds - The active long bond fund manager has 20.6% of the portfolio holding under management. Performance over one year is a return of 16.8% compared to the benchmark return of 17.5%. This is a third quartile (66%) ranking with an added value of -0.7%.

TDAM Real Return Bonds – The passively managed fund has 18.7% of the portfolio under management and returned 13.0% over the one-year period compared to the benchmark return of 13.2%. Value added was -0.2%.

In summary, the Plan outperformed OMERS and improved, although its funding ratio dropped to 68.4%. Through the upcoming year (2015), bonds are expected to be emphasized over equities if interest rates increase and/or a trigger point of 73% is reached in the funded ratio. In the near term, the global and Canadian equity positions will be rebalanced as required by the Plan's Policy.