



# INFORMATION REPORT

<b>TO:</b>	Chair and Members Audit, Finance and Administration Committee
<b>COMMITTEE DATE:</b>	April 11, 2016
<b>SUBJECT/REPORT NO:</b>	Hamilton Future Fund Investment Performance Report - December 31, 2015 (FCS16030) (City Wide)
<b>WARD(S) AFFECTED:</b>	City Wide
<b>PREPARED BY:</b>	Gerald T. Boychuk 905-546-4321
<b>SUBMITTED BY:</b>	Mike Zegarac General Manager Finance & Corporate Services Department
<b>SIGNATURE:</b>	

## Council Direction:

Not applicable.

## Information:

The City of Hamilton Future Fund portfolio of investments had an earnings rate of 2.61% for the 12 months ending December 31, 2015 and an average earnings rate of 3.36% over the past five years. 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 \$962,339 in bond interest, net realized capital gains/losses and lending revenue over the last 12 months ending December 31, 2015. The total return of \$962,339 was realized on an investment at an average cost of \$36,710,914, giving a percentage return on cost of 2.62%. Bond lending revenues of \$5,252 are included in the earnings rate of 2.61%. Interest, net realized capital gains/losses and lending income over the last five years have averaged \$2.02 million annually.

As at December 31, 2015, net unrealized capital gain/loss was \$1,011,064; and a net capital loss of \$23,154 was realized over the past 12 months. The duration of the portfolio of investments was 5.05 years as at December 31, 2015 compared with 4.25 years as at December 31, 2014.

As at December 31, 2015, the market value of the portfolio was \$28,990,314 compared with \$41,198,548 as at December 31, 2014, a decrease of \$12,208,234 primarily attributed to net capital disbursements. Capital disbursements of approximately \$16.1 million for major projects, such as the Pan Am Stadium, Glanbrook Landfill- Stage 3

Development and various smaller projects were funded while loan repayments of approximately \$7.4 million were received.

For the 12 months ending December 31, 2015, the overall return (includes interest, bond lending revenue, realized and unrealized capital gains/losses) was 2.57% underperforming the benchmark return of 2.72% by 15 basis points. Over the past five years, the overall return has averaged 2.66% per annum, underperforming the average benchmark return over the same five-year period of 2.96% by 30 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, 2015 were 1.94% for bonds and 0.67% 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 1.81% or 76 basis points less than the actual return of 2.57%. Using an average portfolio market value of \$37,960,187 for the past 12 months, an increase of 0.76% in overall return resulted in a revenue increase of approximately \$288,497. The One Funds underperformance over this period is attributed to its policy of investing in short-term bonds. The decline in interest rates in 2015 was particularly beneficial to bonds with term to maturity over three years, as evidenced by the FTSE TMX Mid-Government Index return of 5.11% and the FTSE TMX Short Government Index return of 2.54%.

Table 1 below summarizes the investment return indicators.

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

	<b>12 Months ended 12/31/2015</b>	<b>12 Months ended 12/31/2014</b>	<b>12 Months ended 12/31/2013</b>	<b>12 Months ended 12/31/2012</b>	<b>12 Months ended 12/31/2011</b>
Policy Target	2.72%	4.34%	0.42%	1.56%	5.76%
<b>Hamilton Future Fund Portfolio</b>	<b>2.57%</b>	<b>4.25%</b>	<b>-0.03%</b>	<b>2.16%</b>	<b>4.33%</b>
One Fund – Bonds	1.94%	2.91%	1.14%	1.55%	4.19%
One Fund –Money Mkt.	0.67%	0.86%	0.95%	1.04%	1.19%
FTSE TMX – Short Government	2.54%	2.76%	1.40%	1.17%	4.62%
FTSE TMX – Mid Government	5.11%	9.11%	-1.20%	3.45%	10.20%
Bond Lending Revenue	\$5,252	\$2,411	\$4,865	\$2,318	\$6,697
<b>Earnings Rate (Excludes Capital Gains/Losses)</b>	<b>2.61%</b>	<b>2.52%</b>	<b>2.80%</b>	<b>4.16%</b>	<b>4.72%</b>

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

**Table 2**

<b>CANADIAN INTEREST RATES</b>			
<b>Canada Benchmark Bond</b>	<b>Interest Rate January 4, 2016</b>	<b>Interest Rate January 2, 2015</b>	<b>Interest Rate January 2, 2014</b>
One Month (T-Bill)	0.46%	0.89%	0.87%
2 year	0.47%	1.00%	1.13%
5 year	0.73%	1.31%	1.93%
10 year	1.40%	1.74%	2.74%

Through 2015, short-term rates declined as did the Bank of Canada's target for the overnight rate which was cut by a quarter of a percent twice during the year, ending 2015 at 0.5%. Longer term rates tended to move progressively lower led by the 10 year and 30 year bonds. The decline was based on reduced inflation fears and reduced concerns of a rate increase by the Bank of Canada. As well, commodity prices particularly oil which opened the year at \$54 a barrel before closing 2015 at \$37 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 outperformed the One Fund, however underperformed the benchmark.

The Canadian dollar ended the year at \$0.723 US, having closed 2014 at \$0.861 US. 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 0.25% reduction in the overnight target rate by the Bank of Canada to a target rate of 0.5% on July 15, 2015. The Bank cut expected GDP growth for 2016 to 1.4% from its projections during 2015 of 2.4%.