



CITY OF HAMILTON
CORPORATE SERVICES DEPARTMENT
Financial Planning & Policy Division

TO:	Chair and Members Audit, Finance and Administration Committee
COMMITTEE DATE:	May 9, 2016
SUBJECT/REPORT NO:	Treasurer's Investment Report 2015 Fiscal Year by Aon Hewitt (FCS16035) (City Wide)
WARD(S) AFFECTED:	City Wide
PREPARED BY:	Rosaria Morelli 905-546-2424 Ext. 1390 Gerald T. Boychuk 905-546-4321
SUBMITTED BY:	Mike Zegarac General Manager Finance and Corporate Services Department
SIGNATURE:	

RECOMMENDATION

That Report FCS16035 "Treasurer's Investment Report 2015 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 2015 Fiscal Year (the "Treasurer's Report"), attached as Appendix "A" to Report FCS16035.

The Treasurer's Report is an investment report for the City's Reserve Fund and the Hamilton Future Fund (the "Funds") for fiscal year 2015, and is prepared by Aon Hewitt on behalf of the Treasurer of the City of Hamilton.

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).

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Performance of the Investments for the Funds

The market rates of return for the 12 month period ending December 31, 2015 were 3.56% for the Reserve Fund and 2.57% for the Hamilton Future Fund. Details were provided in Report FCS16028 and Report FCS16030, respectively, presented to the Audit, Finance and Administration Committee meeting of April 11, 2016. The Reserve Fund outperformed the benchmark rate of return of 2.72% by 0.84% 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 2015. The Hamilton Future Fund underperformed the benchmark rate of return of 2.72% by 0.15%, 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 of Hamilton's custodian.

The market rates of return for the Funds, given above, as well as those for each quarter in fiscal year 2015, 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 2015, the Reserve Fund's annual rate of return was 2.82% and the Hamilton Future Fund's annual rate of return was 2.62%. 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 2015, the City was invested in its own long-term securities, which had a market value of \$12.57 million or a proportion of 1.6% of the total market value of the Reserve Fund as at December 31, 2015. As at December 31, 2014, the proportion was 2.0%. The bulk of the decline in proportion is attributed to the maturity of the City of Hamilton bond with a coupon rate of 6.05%, which had a par value of \$3.239 million and a maturity value of \$3.239 million on July 12, 2015. The balance of the decline in the proportion is attributed to market fluctuation. Other than the maturity of this City of Hamilton security, the City had no other transactions in or disposals of its own long-term securities during fiscal year 2015. During fiscal year 2015, the City was not invested in its own short-term securities, which is unchanged compared with the fiscal year 2014.

Alternatives for Consideration – Not Applicable

FINANCIAL – STAFFING – LEGAL IMPLICATIONS

Financial: None.

Staffing: None.

Legal: None.

HISTORICAL BACKGROUND

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 FCS16035.

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 2015).

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 RATIONALE FOR RECOMMENDATION

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 2015 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 2015 %	Q2 2015 %	Q3 2015 %	Q4 2015 %	1 Year %	3 Year %
Benchmark	2.4	-0.4	0.2	0.6	2.7	2.5
Reserve Fund						
RBC I&TS	3.1	-0.7	0.3	0.8	3.6	3.0
Aon Hewitt	3.1	-0.7	0.3	0.8	3.6	3.0
Difference	0.0	0.0	0.0	0.0	0.0	0.0
Hamilton Future Fund						
RBC I&TS	1.9	-0.4	0.3	0.9	2.6	2.3
Aon Hewitt	2.0	-0.4	0.3	0.9	2.7	2.3
Difference	-0.1	0.0	0.0	0.0	-0.1	0.0
Reserve Fund (RBCI&TS) Minus Benchmark	0.7	-0.3	0.1	0.2	0.9	0.5
Hamilton Future Fund (RBCI&TS) Minus Benchmark	-0.5	0.0	0.1	0.3	-0.1	-0.2

For the one-year period ending December 31, 2015, the Reserve Fund outperformed the benchmark by 0.9% and the Hamilton Future Fund underperformed the benchmark by 0.1%, 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, 2015. Interest rates during 2015 decreased significantly; for example, the Government of Canada bond with a term to maturity of 10 years decreased from 1.74% at the beginning of the year (2015) to 1.39% at the end of the year (2015). The

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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)

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 4.02 of the City's SIPP. The list of issuers (the "list") given in the Treasurer's Report corresponds with this approved list and Section 4.02 of the City's SIPP.

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

As at December 31, 2015, the total market value (including net accruals) of the securities for the Reserve Fund was \$793,587,215 (which includes the market value of the One Equity Portfolio which was \$5,315,398 as at December 31, 2015) and the total market value (including net accruals) of securities for the Hamilton Future Fund was \$28,990,314.

Investments in City of Hamilton Securities

During fiscal year 2015, the City was invested in its own long-term securities, which had a market value of \$12.57 million or a proportion of 1.6% of the total market value of the Reserve Fund as at December 31, 2015. As at December 31, 2014, the proportion was 2.0%. The bulk of the decline in proportion is attributed to the maturity of the City of Hamilton bond with a coupon rate of 6.05%, which had a par value of \$3.239 million and a maturity value of \$3.239 million on July 12, 2015. The balance of the decline in the proportion is attributed to market fluctuation. Other than the maturity of this City of Hamilton security, the City had no other transactions in or disposals of its own long-term securities during fiscal year 2015. During fiscal year 2015, the City was not invested in its own short-term securities, which is unchanged compared with the fiscal year 2014.

Investment in One Equity Portfolio

The City invests in shares of the One Equity Portfolio for the Reserve Fund; the investment had a market value of \$5,315,398 and a book value of \$4,176,605 as at December 31, 2015.

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, 2015, on a combined basis, the Funds were being managed in accordance with the minimum quality requirements, maximum quantity restrictions and all other imposed restrictions.

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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:	Yes
<ul style="list-style-type: none"> • The money raised by issuing the security is to be used for school purposes 	
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
Banks & Credit Unions in aggregate	0-50
Short-term securities	0-50
Portfolio duration	1-6 Years

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

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Table 3, below, not included in the Treasurer's Report, shows as at December 31, 2015, 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, 2015

<i>Issuer or Sector</i>	<i>Reserve Fund</i>	<i>Hamilton Future Fund²</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	11%	18%	11%	50%
Other	34%	44%	34%	50%
Municipalities				
Hamilton	2%	0%	2%	25%
Other	19%	4%	19%	30%
Banks & Credit Union				
				50%
Schedule I	27%	33%	27%	50%
Credit Union	1%	0%	1%	8%
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 2015, the total dollar amount of purchases and sales of securities in the Reserve Fund was approximately \$226.8 million, with total net sales of \$27.2 million.

During fiscal year 2015, the total dollar amount of purchases and sales of securities in the Hamilton Future Fund was approximately \$95.0 million, with total net sales of \$12.2 million (including transactions of cash to and from the short-term investment fund custodial account).

Certificate by Chief Investments Officer (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.

ALTERNATIVES FOR CONSIDERATION

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 FCS16035