



INFORMATION REPORT

TO:	Chair and Members Audit, Finance and Administration Committee
COMMITTEE DATE:	April 10, 2017
SUBJECT/REPORT NO:	Hamilton Future Fund Investment Performance Report - December 31, 2016 (FCS17041) (City Wide)
WARD(S) AFFECTED:	City Wide
PREPARED BY:	Gerald T. Boychuk (905) 546-2424 Ext. 4321 Brandon A. Teglas (905) 546-2424 Ext. 4363
SUBMITTED BY:	Mike Zegarac General Manager Finance and Corporate Services Department
SIGNATURE:	

Council Direction:

Not applicable.

Information:

The City of Hamilton Future Fund portfolio of investments had an earnings rate of 2.66% for the 12 months ending December 31, 2016 and an average earnings rate of 2.95% 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 \$916,271 in bond interest, net realized capital gains/losses and lending revenue over the last 12 months ending December 31, 2016. The total return of \$916,271 was realized on an investment at an average cost of \$34,521,772, giving a percentage return on cost of 2.65%. Bond lending revenues of \$6,071 are included in the earnings rate of 2.66%. Interest, net realized capital gains/losses and lending income over the last five years have averaged \$1.57 M annually.

As at December 31, 2016, net unrealized capital gain/loss was \$666,219 and a net capital loss of \$41,559 was realized over the past 12 months. The duration of the portfolio of investments was 5.47 years as at December 31, 2016 compared with 5.05 years as at December 31, 2015.

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As at December 31, 2016, the market value of the portfolio was \$35,723,296 compared with \$29,990,314 as at December 31, 2015, an increase of \$6,732,982 primarily attributed to loan repayments. Capital disbursements of approximately \$1.6 M were paid throughout the year, while loan repayments of approximately \$8 M were received.

For the 12 months ending December 31, 2016, the overall return (includes interest, bond lending revenue, realized and unrealized capital gains/losses) was 1.61%, outperforming the benchmark return of 0.52% by 109 basis points. Over the past five years, the overall return has averaged 2.11% per annum, outperforming the average benchmark return over the same five-year period of 1.91% by 20 basis points. The out performance 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 longer 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, 2016 were 0.68% for bonds and 0.50% 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 0.67% or 94 basis points less than the actual return of 1.61%. Using an average portfolio market value of \$35,993,472 for the past 12 months, an increase of 0.94% in overall return resulted in a revenue increase of approximately \$338,339. The One Funds underperformance over this period is attributed to its policy of investing in short-term bonds. The decline in interest rates in 2016 was particularly beneficial to bonds with term to maturity over three years, as evidenced by the FTSE TMX Mid-Government Index return of 0.87% and the FTSE TMX Short Government Index return of 0.35%.

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Table 1 below summarizes the investment return indicators.

Table 1
Investment Return Indicators
(for information purposes only)

	12 Months Ended 12/31/2016	12 Months Ended 12/31/2015	12 Months Ended 12/31/2014	12 Months Ended 12/31/2013	12 Months Ended 12/31/2012
Policy Target	0.52%	2.72%	4.34%	0.42%	1.56%
Hamilton Future Fund Portfolio	1.61%	2.57%	4.25%	-0.03%	2.16%
One Fund – Bonds	0.68%	1.94%	2.91%	1.14%	1.55%
One Fund – Money Mkt.	0.50%	0.67%	0.86%	0.95%	1.04%
FTSE TMX – Short Government	0.35%	2.54%	2.76%	1.40%	1.17%
FTSE TMX – Mid Government	0.87%	5.11%	9.11%	-1.20%	3.45%

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 3, 2017	Interest Rate January 4, 2016	Interest Rate January 2, 2015
One Month (T-Bill)	0.40%	0.46%	0.89%
2 Year	0.77%	0.47%	1.00%
5 Year	1.14%	0.73%	1.31%
10 Year	1.74%	1.40%	1.75%

Through 2016, short-term rates declined as the Bank of Canada's bank rate remained at 0.50%. 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 \$37 a barrel before closing 2016 at \$54 were moving lower midyear due to general over supply and slowing global activity, particularly in China. This, in turn, led to increasing downward pressure on the Canadian dollar with a modest increase in its value year end. The portfolio of bonds, in spite of having a high

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proportion of very short securities to fund delayed projects, outperformed the One Fund and the benchmark.

The Canadian dollar ended the year at \$0.745 US, having closed 2015 at \$0.723 US. This was due to decreasing projected global economic activity and a modest increase in commodities pricing, 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 which led to a 0.25% reduction in the overnight target rate by the Bank of Canada to a bank rate of 0.5% on July 15, 2015. The rate has remained unchanged through 2016 due to global issues such as slowing growth in China, Brexit and trade deficits despite significant Canadian dollar discounting. Manufacturing exports have declined while imports remained fairly constant.

The Bank of Canada reported 1.3% GDP growth in 2016 and projected 2017 GDP growth to rise to 2.1%. The Bank had projected 1.4% in 2015 for 2016.

APPENDICES AND SCHEDULES ATTACHED

None.

BT/dt