INFORMATION REPORT

TO:	Chair and Members Audit, Finance and Administration Committee
COMMITTEE DATE:	April 23, 2018
SUBJECT/REPORT NO:	Hamilton Future Fund Investment Performance Report - December 31, 2017 (FCS18042) (City Wide)
WARD(S) AFFECTED:	City Wide
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Council Direction:

Not applicable.

Information:

The City of Hamilton Future Fund portfolio of investments had an earnings rate of 2.55% for the 12 months ending December 31, 2017 and an average earnings rate of 2.63% 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 $1,103,171 in bond interest, net realized capital gains / losses and lending revenue over the last 12 months ending December 31, 2017. The total return of $1,103,171 was realized on an investment at an average cost of $43,325,660, giving a percentage return on cost of 2.55%. Bond lending revenues of $9,479 are included in the earnings rate of 2.55%. Interest, net realized capital gains / losses and lending income over the last five years have averaged $1.17M annually.

As at December 31, 2017, net unrealized capital gain / loss was $216,806 and a net capital loss of $26,048 was realized over the past 12 months. The duration of the portfolio of investments was 5.37 years as at December 31, 2017 compared with 5.47 years as at December 31, 2016.

As at December 31, 2017, the market value of the portfolio was $44,349,382 compared with $35,723,296 as at December 31, 2016, an increase of $8,626,086 primarily attributed to loan repayments. Loan repayments of approximately $8M were received.

For the 12 months ending December 31, 2017, the overall return (includes interest, bond lending revenue, realized and unrealized capital gains / losses) was 1.50%, out-performing the benchmark return of 0.42% by 108 basis points. Over the past five years, the overall return has averaged 1.98% per annum, out-performing the average benchmark return over the same five-year period of 1.68% by 30 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, 2017 were -0.15% for bonds and 0.60% 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 -0.08% or 158 basis points less than the actual return of 1.50%. Using an average portfolio market value of $43,300,102 for the past 12 months, an increase of 1.58% in overall return resulted in a revenue increase of approximately $684,142. The One Funds under-performance over this period is attributed to its policy of investing in short-term bonds. The FTSE TMX Mid-Government Index returned 0.46% and the FTSE TMX Short Government Index returned -0.38%.

Table 1 summarizes the investment return indicators.

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

	12 Months ended 12/31/2017	12 Months ended 12/31/2016	12 Months ended 12/31/2015	12 Months ended 12/31/2014	12 Months ended 12/31/2013
Policy Target	0.42%	0.52%	2.72%	4.34%	0.42%
Hamilton Future Fund Portfolio	1.50%	1.61%	2.57%	4.25%	-0.03%
One Fund – Bonds	-0.15%	0.68%	1.94%	2.91%	1.14%
One Fund –Money Mkt.	0.60%	0.50%	0.67%	0.86%	0.95%
FTSE TMX – Short Government	-0.38%	0.35%	2.54%	2.76%	1.40%
FTSE TMX – Mid Government	0.46%	0.87%	5.11%	9.11%	-1.20%
Bond Lending Revenue	$9,479	$6,071	$5,252	$2,411	$4,865
Earnings Rate (Excludes Capital Gains/Losses)	2.55%	2.66%	2.61%	2.52%	2.80%

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

Table 2

CANADIAN INTEREST RATES			
Canada Benchmark Bond	Interest Rate January 3, 2018	Interest Rate January 3, 2017	Interest Rate January 4, 2016
One Month (T-Bill)	0.95%	0.40%	0.46%
2 year	1.68%	0.77%	0.47%
5 year	1.86%	1.14%	0.73%
10 year	2.05%	1.74%	1.40%

Through 2017, short-term rates increased as the Bank of Canada's bank rate moved up to 1.0% by year end. 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 2017 at $60, were moving higher. This, in turn, led to increasing upward pressure on the Canadian dollar with an increase in its value at year end. The Canadian dollar ended the year at $0.797 US, having closed 2016 at $0.745 US. This was due to increased projected global economic activity and an increase in general commodities pricing, especially oil. The portfolio of bonds, in spite of having a high proportion of very short securities to fund delayed projects, out-performed the One Fund and the benchmark.

The Canadian economy performed well over 2017. Growing 3.2% overall, it eclipsed the projected year-end growth rate of 2.0% by an additional 1.2%, which led to the short-term rate increases late in the year. The Bank of Canada had projected 3.1% growth in 2016 for 2017. Going forward, the projected growth for 2018 is 1.8%, which would be under-performing the target growth of 2.0% per year.

Concerns and trade relations in North America and globally rose, specifically, trade war fears due to tariff threats by the United States. The United States has proceeded to place tariffs on steel imports at different levels with all countries, with some short-term relief for Canada. As well, Canada and the United States are in negotiations on the North American Free Trade Agreement (NAFTA). The uncertainty of the negotiations has stopped the Bank of Canada from increasing rates further in the near term.

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