



**CITY OF HAMILTON**  
**CORPORATE SERVICES DEPARTMENT**  
*Financial Planning, Administration and Policy Division*

<b>TO:</b>	Chair and Members Audit, Finance and Administration Committee
<b>COMMITTEE DATE:</b>	May 7, 2018
<b>SUBJECT/REPORT NO:</b>	Treasurer's Investment Report 2017 Fiscal Year by Aon Hewitt (FCS18041) (City Wide)
<b>WARD(S) AFFECTED:</b>	City Wide
<b>PREPARED BY:</b>	Rosaria Morelli (905) 546-2424 Ext. 1390 Gerald T. Boychuk (905) 546-4321
<b>SUBMITTED BY:</b>	Mike Zegarac General Manager Finance and Corporate Services
<b>SIGNATURE:</b>	

**RECOMMENDATION**

That Report FCS18041, "Treasurer's Investment Report 2017 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 2017 Fiscal Year (the "Treasurer's Report"), attached as Appendix "A" to Report FCS18041.

The Treasurer's Report is an investment report for the City's Reserve Fund and the Hamilton Future Fund (the "Funds") for fiscal year 2017 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").

## Performance of the Investments for the Funds

The market rates of return for the 12-month period ending December 31, 2017 were 1.29% for the Reserve Fund and 1.50% for the Hamilton Future Fund. The Reserve Fund outperformed the benchmark rate of return of 0.42% by 0.87% due to an overweight position in longer-dated bonds, which outperformed shorter-dated bonds during the year 2017. The Hamilton Future Fund outperformed the benchmark rate of return of 0.42% by 1.08%, attributed mostly to its overweight position in longer-dated bonds.

Market rate of return is based on security market value and includes net unrealized gains and losses, net realized gains and losses, and income and is provided by RBC Investor & Treasury Services (“RBCITS”), 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 2017, were verified (allowing for a tracking error of plus or minus 0.10%) by Aon Hewitt, thereby providing an independent third party review of the Funds’ investment performance.

On an average cost basis for fiscal year 2017, the Reserve Fund’s annual rate of return was 2.57% and the Hamilton Future Fund’s annual rate of return was 2.55%. The rate of return on a cost basis excludes net unrealized gains and losses, but includes all income and net realized gains and losses and values the securities using original cost.

## Investment in City of Hamilton Securities

During the fiscal year 2017, the City was invested in its own long-term securities, which had a market value of \$7.8M or a proportion of 0.85% of the total market value of the Reserve Fund as at December 31, 2017. As at December 31, 2016, the proportion was 1.2%. The bulk of the decline in proportion is attributed to the maturity of the City of Hamilton bond with a maturity date of November 30, 2017, a coupon rate of 4.65%, a par value of \$2,600,000 and a maturity value of \$2,600,000. 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 securities during fiscal year 2017. During fiscal year 2017, the City was not invested in its own short-term securities, which is unchanged compared with the fiscal year 2016.

## ***Alternatives for Consideration – Not Applicable***

## **FINANCIAL – STAFFING – LEGAL IMPLICATIONS**

Financial: Not Applicable.

Staffing: Not Applicable.

Legal: Not Applicable.

## **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 FCS18041.

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 2017).

## **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 RBCITS. Aon Hewitt verified RBCITS' market rate of return for each quarter end in fiscal year 2017 and (annualized) longer periods. Aon Hewitt confirms that their market rate of return matches that of RBCITS for the periods considered, allowing for a tracking error of plus or minus 0.10%. 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 2017 %	Q2 2017 %	Q3 2017 %	Q4 2017 %	1 Year %	3 Year %
Benchmark	0.58	0.02	-0.87	0.71	0.42	1.22
Reserve Fund						
RBCITS	1.08	0.04	-0.91	1.08	1.29	2.11
Aon Hewitt	1.10	0.05	-0.91	1.10	1.33	2.11
Difference	-0.02	-0.01	0.00	-0.02	-0.04	0.00
Hamilton Future Fund						
RBCITS	1.28	0.16	-1.09	1.16	1.50	1.89
Aon Hewitt	1.31	0.15	-1.10	1.15	1.51	1.94
Difference	-0.03	0.01	0.01	0.01	-0.01	-0.05
Reserve Fund (RBCITS) Minus Benchmark	0.50	0.02	-0.04	0.37	0.87	0.89
Hamilton Future Fund (RBCITS) Minus Benchmark	0.70	0.14	-0.22	0.45	1.08	0.67

For the one-year period ending December 31, 2017, the Reserve Fund outperformed the benchmark by 0.87% and the Hamilton Future Fund outperformed the benchmark by 1.08%. The outperformance of the Reserve Fund was due to its overweight position in longer-dated bonds, which outperformed shorter-dated bonds in 2017. During the first two quarters of 2017 interest rates trended downwards, but then reversed course and trended upwards during the last half of 2017. The yield on the Government of Canada bond with a term to maturity of 10 years increased from 1.72% at the beginning of the year (2017) to 2.05% by the end of the year (2017). The benchmark for the Funds is composed of 10% 91-day T-Bills, 62.5% FTSE TMX Short-Term All Government Bond Index, and 27.5% FTSE TMX 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 Sector and Issuer Limitations 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, 2017, the total market value (including net accruals) of the securities of the Reserve Fund was \$912,670,145, of which \$34,374,186 consists of investments in the One Investment Program. The One Investment Program is jointly operated by the Local Authority Services and CHUMS Financing Corporation (a subsidiary of the Municipal Finance Officers' Association of Ontario). As at December 31, 2017, the City held shares in the One Investment Program Equity Portfolio with a market value of \$29,393,892 and shares in the One Investment Program Universe Corporate Bond Portfolio with a market value of \$4,980,294.

The total market value (including net accruals) of securities for the Hamilton Future Fund was \$44,349,382.

During the fiscal year 2017, the City was invested in its own long-term securities, which had a market value of \$7.8M or a proportion of 0.85% of the total market value of the Reserve Fund as at December 31, 2017. As at December 31, 2016, the proportion was 1.2%. The bulk of the decline in proportion is attributed to the maturity of the City of Hamilton bond with a maturity date of November 30, 2017, a coupon rate of 4.65%, a par value of \$2,600,000 and a maturity value of \$2,600,000.

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 securities during fiscal year 2017. During fiscal year 2017, the City was not invested in its own short-term securities, which is unchanged compared with the fiscal year 2016.

Restrictions (Page 12 and Page 13 of the Treasurer's Report)

Table 2, from the Treasurer's Report, shows that as at December 31, 2017, on a combined basis, the Funds were being managed in accordance with the minimum quality requirements, maximum quantity restrictions and all other imposed restrictions.

Table 2  
Restrictions

		Policy Complied With Yes / No
<b>Constraints</b>		
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 the money raised by issuing the security is to be used for school purposes		Yes
		Policy Complied With Yes / No
	(%)	
Permitted	Ranges	
Federal issues	0-100	Yes
Provincial holdings in aggregate	0-100	Yes
Single province exposure	0-50	Yes
Individual non-federal / non-provincial holdings*	0-10	Yes
Non-federal / non-provincial holdings in aggregate	0-50	Yes
Municipal issues*		
Individual muni issue rated "AAA"	0-10	Yes
Individual muni issue rated "AA"	0-10	Yes
Individual muni issue rated "A"	0-5	Yes
Municipal holdings in aggregate	0-30	Yes
Banks and Credit Unions in aggregate	0-50	Yes
Short-term securities	0-50	Yes
Portfolio duration	1-6 Years	Yes

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

Table 3, not included in the Treasurer's Report, shows as at December 31, 2017, the City's credit exposure and limits for the Funds to the approved issuers given in Appendix "A" to Report FCS18041 of the City's SIPP.

Table 3  
Credit Exposure<sup>1</sup> (%) – As at December 31, 2017

Issuer of Sector	Reserve Fund	Hamilton Future Fund <sup>2</sup>	Combined Funds	Maximum Limit %
Cash or STIF	0.0%	2.2%	0.1%	
Canada				
Direct	1.1%	0.0%	1.1%	100%
Guarantee	5.9%	0.0%	5.6%	25%
Provinces				
Ontario	11.6%	15.9%	11.8%	50%
Other	40.3%	49.6%	40.7%	100%
Municipalities				
Hamilton	0.8%	0.0%	0.8%	25%
Other	16.0%	11.8%	15.8%	30%
Banks and Credit Union				50%
Schedule I	17.6%	20.5%	17.8%	50%
Credit Union	3.4%	0.0%	3.2%	8%
Asset Backed Securities	0.0%	0.0%	0.0%	25%
Corp. Bonds	0.0%	0.0%	0.0%	15%
Commercial Paper and Asset Backed Commercial Paper (ABCP)	0.0%	0.0%	0.0%	20%
One Investment Program				10%
Equity Portfolio	2.7%	0.0%	2.6%	
Universe Corporate Bond Portfolio	0.6%	0.0%	0.5%	
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	

Notes to Table 3:

<sup>1</sup> 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.

<sup>2</sup> 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 RBCITS.

#### Transactions (Page 14 of the Treasurer's Report)

During the fiscal year 2017, the total dollar amount of purchases and dispositions (bond maturities and sales) of securities in the Reserve Fund was approximately \$435.1M, with total net purchases of \$33.1M (\$7.7M funded through net cash inflows from bond maturities, bond sales and contributions from the City and \$25.4M funded through net investment income).

During the fiscal year 2017, the total dollar amount of purchases and dispositions (bond maturities and sales) of securities in the Hamilton Future Fund was approximately \$43.9M, with total net purchases of \$9.1M (\$8.0M funded through net cash inflows from bond maturities, bond sales and contributions from the City, and \$1.1M funded through net investment income). Many of the transactions for the Future Fund were related to the purchase and sale of the short-term investment fund (STIF) in the 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 2016 – 2025 STRATEGIC PLAN**

#### **Our People and Performance**

*Hamiltonians have a high level of trust and confidence in their City government.*

### **APPENDICES AND SCHEDULES ATTACHED**

Appendix "A" – City of Hamilton Reserve Funds Treasurer's Investment Report 2017 Fiscal Year

RM/GB/dt