

City of Hamilton—Reserve Funds Treasurer’s Investment Report 2017 Fiscal Year

March 2018

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Introduction

As the acting Investment Consultant, Aon is engaged to prepare, on behalf of the Treasurer of the City of Hamilton ("City"), an investment report, referred to as the Treasurer's Report ("the report"), relating to the activities of the City of Hamilton Reserve Fund and the Hamilton Future Fund ("the Funds") during the prior fiscal year. The report will be presented to City Council in the second quarter of every calendar year.

The report is part of a broader governance oversight of the Funds, which includes financial audits, used to evaluate and monitor the various responsibilities that have been delegated by the Treasurer of the City of Hamilton ("City Treasurer") and City Council. More specifically, the overall objective of the report is to ensure that the Funds are managed in accordance with existing legislation that was in effect in 2017 and the guidelines set out in the Statement of Investment Policies and Procedures for the City of Hamilton Reserve Funds and Trust Accounts ("SIP&P") as well as to provide an independent third party review of the Funds' performance.

The report has been written in accordance with Section 1.11 of the SIP&P. As stipulated in Section 1.11 of the SIP&P, the report must contain the following items:

- A statement about the performance of the portfolio of investments of the City during the period covered by the report;
- A listing of the types of securities in which the portfolio invested during the period covered by the report;
- A listing of the securities and their credit ratings held by the portfolio as at the date of the report;
- A description of the estimated proportion of the total investments of a municipality 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 record of the date of each transaction in or disposal of its own securities, including a statement of the purchase and sale of each security;
- A statement by the Chief Investments Officer ("CIO") as to whether or not, in his or her opinion, the management of the Funds was made in accordance with all the terms, conditions and guidelines stipulated in the SIP&P in effect during 2017; and
- Such other information that the council may require or that, in the opinion of the City Treasurer, should be included.

This report addresses only the activities of the City of Hamilton Reserve Fund and the Hamilton Future Fund. The Trust Accounts are not covered by this report.

Reserve Fund Performance and Future Fund Performance

The returns of the Funds are determined by RBC Investor & Treasury Services (“RBC”), the custodian, on a daily basis for the City of Hamilton Reserve Fund and on a monthly basis for the Hamilton Future Fund. Aon verifies RBC’s return figures, on a monthly basis only, through a separate calculation using RBC’s monthly custodian statement as its data source. A tracking error of +/- 0.10% per period between the two calculations is deemed acceptable whilst discrepancies outside the tolerance range must be identified and corrected by mutual agreement.

The return calculation adopted by Aon uses a monthly time-weighted methodology which includes realized and unrealized gains and losses and income from all sources and includes accruals. The return calculations are based on the Dietz method, whereby cash flows are assumed to occur at the mid-point of each month. Settlement date accounting is used. In cases where large cash flows occur away from mid-month, the Modified Dietz method is used, which day-weights cash flows. Monthly returns are geometrically linked to develop returns for longer periods. Returns for periods less than one year are not annualized. Returns for periods greater than one year are annualized. All return inputs, including market and book values, income from interest and dividends, accruals and external cash flows are taken from the custodian statements. Investment management fees are not included in return calculations but transaction costs are considered.

Aon’s return calculations are made in accordance with CFA Insitute performance methodology standards. While the CFA Institute requires minimum quarterly valuations, Aon exceeds that standard by using monthly valuations.

The Funds’ performance objective, as outlined in Section 4.10 of the SIP&P, is to outperform a benchmark portfolio constructed from a blend of returns composed of 62.5% of the FTSE TMX Canada All Government Short Term Bond Index, 27.5% of the FTSE TMX Canada All Government Bond Index and 10.0% of FTSE TMX Canada 91-Day Treasury-Bill Index.

Benchmark	%
FTSE TMX Canada All-Government Short Term Bond Index	62.5
FTSE TMX Canada All-Government Bond Index	27.5
FTSE TMX Canada 91-Day Treasury Bill Index	<u>10.0</u>
	100.0

The performance returns of the Funds over each of the quarters of 2017, and the one-, two-, three- and four-year periods ending December 31, 2017 are as follows:

City of Hamilton Reserve Fund—Performance %

	Q1 2017	Q2 2017	Q3 2017	Q4 2017	One Year	Two Years (annualized)	Three Years (annualized)	Four Years (annualized)
RBC	1.08	0.04	-0.91	1.08	1.29	1.39	2.11	3.16
Aon	<u>1.10</u>	<u>0.05</u>	<u>-0.91</u>	<u>1.10</u>	<u>1.33</u>	<u>1.39</u>	<u>2.11</u>	<u>3.16</u>
Difference	-0.02	-0.01	0.00	-0.02	-0.04	0.00	0.00	0.00
Benchmark	0.58	0.02	-0.87	0.71	0.42	0.47	1.22	1.99
Value Added*	0.50	0.02	-0.04	0.37	0.87	0.92	0.89	1.17

**Based on returns calculated by RBC*

The returns calculated by RBC, compared to the returns calculated by Aon, as shown above are within the tracking error tolerance range over all periods.

Over a one-year period, the City of Hamilton Reserve Fund’s return of 1.29% outperformed the benchmark return of 0.42% by 87 basis points.

Hamilton Future Fund—Performance %

	Q1 2017	Q2 2017	Q3 2017	Q4 2017	One Year	Two Years (annualized)	Three Years (annualized)	Four Years (annualized)
RBC	1.28	0.16	-1.09	1.16	1.50	1.55	1.89	2.48
Aon	<u>1.31</u>	<u>0.15</u>	<u>-1.10</u>	<u>1.15</u>	<u>1.51</u>	<u>1.58</u>	<u>1.94</u>	<u>2.52</u>
Difference	-0.03	0.01	0.01	0.01	-0.01	-0.03	-0.05	-0.04
Benchmark	0.58	0.02	-0.87	0.71	0.42	0.47	1.22	1.99
Value Added*	0.70	0.14	-0.22	0.45	1.08	1.08	0.67	0.49

**Based on returns calculated by RBC*

The returns calculated by RBC, compared to the returns calculated by Aon, as shown above are within the tracking error tolerance range over all periods.

Over a one-year period, the City of Hamilton Future Fund’s return of 1.50% outperformed the benchmark return by 108 basis points.

Types of Securities

The City is only allowed to invest in securities permitted under Municipal Act, 2001 Ontario Regulation 438/97 that was in effect during 2017. As per Section 4.02 of the SIP&P, an Approved List of Investments ("Approved List") has been established by the City Treasurer and the CIO. All investments on the Approved List meet the eligibility requirements as prescribed by Ontario Regulation 438/97. The Approved List is as follows:

Bonds, Debentures, Promissory Notes, Other Evidence of Indebtedness Issued by or Guaranteed by

Government of Canada
Canadian Provincial Government
Government of Canada Agency
Canadian Provincial Agency
Country other than Canada
Canadian Municipality, including the City of Hamilton
School Board in Canada
Municipal Finance Authority of British Columbia
Canadian Corporation
Banks in Canada
Ontario Strategic Infrastructure Financing Authority (OSIFA)
International Bank for Reconstruction and Development
Inter-American Development Bank
Supranational Financial Institution
Supranational Governmental Organization

Deposit Receipts, Deposit Notes, Certificate of Deposits, Acceptances Issued by or Guaranteed by

Banks in Canada
Credit Union with Guarantee

Asset Backed Securities (ABS)

Asset Backed Securities
Asset Backed Commercial Paper (ABCP)

Negotiable Promissory Notes or Commercial Paper (other than ABS)

Forward Rate Agreements

ONE Funds (One Investment Program)*

Shares Issued by a Corporation Incorporated Under the Laws of Canada or a Province in Canada (subject to footnotes in Approved List), Securities of a Corporation & Shares of A Corporation (subject to footnotes in Approved List)

*The One Investment Program, designed specifically for the municipal and broader Ontario public sector, is jointly operated by LAS and CHUMS Financing Corp. (a subsidiary of the Municipal Finance Officers' Association of Ontario).

We have reviewed the custodian statements as well as the transactions that have occurred to determine the types of securities that were held by the Funds during the 2017 period. We can confirm that the types of securities that were held in the City of Hamilton Reserve Fund and the Hamilton Future Fund during 2017 are as listed as follows:

The types of securities held by the City of Hamilton Reserve Fund were as follows:

City of Hamilton Reserve Fund—Types of Securities

Bonds, Debentures, Promissory Notes, Other Evidence of Indebtedness Issued by or Guaranteed by

Government of Canada
Canadian Provincial Government
Government of Canada Agency
Canadian Provincial Agency
Canadian Municipality, including the City of Hamilton
Banks in Canada
Municipal Finance Authority of British Columbia

Deposit receipts, Deposit Notes, Certificate of Deposits, Acceptances Issued by or Guaranteed by

Banks in Canada
Credit Union with Guarantee

One Investment Program

Equity Portfolio
Universe Corporate Bond Portfolio

The types of securities held by the Hamilton Future Fund were as follows:

Hamilton Future Fund—Types of Securities

Bonds, Debentures, Promissory Notes, Other Evidence of Indebtedness Issued by or Guaranteed by

Government of Canada
Canadian Provincial Government
Canadian Provincial Agency
Canadian Municipality
Banks in Canada
Municipal Finance Authority of British Columbia

Deposit Receipts, Deposit Notes, Certificate of Deposits, Acceptances Issued by or Guaranteed by

Banks in Canada

In addition to the above list of securities, the Hamilton Future Fund has some monies invested in a private placement of 2,000 common shares of the Hamilton Utilities Corporation which amounts to \$224.0 million. As well, as at December 31, 2017, approximately 2.2% of funds were invested in a Short-Term Investment Fund ("STIF") of RBC.

All securities were expressed or payable in Canadian dollars. The types of securities held by the City of Hamilton Reserve Fund and the Hamilton Future Fund during 2017 were all part of the Approved List.

Portfolio Securities as at December 31, 2017

City of Hamilton Reserve Fund

Below are The City of Hamilton Reserve Fund securities and credit ratings as at December 31, 2017. As shown in the list below, the Reserve Fund also held equity and fixed income investments through the One Investment Program (ONE Funds). The City's investment in the One Investment Program Equity Portfolio had a market value of \$29,393,892.63 and book value of \$24,176,599.98; the City's investment in the One Investment Program Universe Corporate Bond Portfolio had a market value of \$4,980,293.73 and book value of \$5,155,787.24.

As at December 31, 2017, City of Hamilton Reserve Fund held a market value of \$7.8 million or 0.85% of the Fund in City of Hamilton securities. Over the last year, the market value of City of Hamilton securities decreased by \$2.9 million from \$10.7 million as at December 31, 2016. The decrease was primarily due to the maturity of the City of Hamilton security (City of Hamilton 4.65% 30Nov2017) on November 30, 2017 with par value of \$2,600,000. The security was originally purchased on November 15, 2005 at a cost of \$2,590,640.00. The remainder of the decrease in value of the City of Hamilton securities was due to market fluctuation. Other than this referenced City of Hamilton security, there were no other transactions in City of Hamilton securities over the last year.

Date	Issuer Name	Annual Coupon Rate	Maturity Date	Market Price	S&P Rating	Portfolio Market Value	
						(\$)	(%)
Federal and Federal Guarantee Bonds							
31-Dec-17	Government of Canada	2.750	1-Jun-22	103.89	AAA	10,388,927.90	1.14%
31-Dec-17	Canada Housing Trust	2.650	15-Mar-22	102.35	AAA	22,517,220.00	2.47%
31-Dec-17	Canada Housing Trust	2.550	15-Mar-25	101.63	AAA	10,163,396.50	1.11%
31-Dec-17	Canada Housing Trust	1.900	15-Sep-26	96.28	AAA	14,441,582.55	1.58%
31-Dec-17	Canada Housing Trust	2.350	15-Jun-27	99.64	AAA	4,982,123.35	0.55%
Provincial and Provincial Guarantee Bonds							
31-Dec-17	Province of Alberta	2.900	20-Sep-29	100.99	A+	14,644,207.29	1.60%
31-Dec-17	Province of Alberta	2.350	1-Jun-25	98.77	A+	7,407,825.83	0.81%
31-Dec-17	Province of Alberta	2.200	1-Jun-26	96.94	A+	5,816,247.60	0.64%
31-Dec-17	Province of Alberta	2.550	1-Jun-27	99.14	A+	7,930,810.88	0.87%
31-Dec-17	Province of Alberta	2.550	15-Dec-22	101.38	A+	20,275,120.20	2.22%
31-Dec-17	Province of British Columbia	2.300	18-Jun-26	98.42	AAA	9,841,605.10	1.08%
31-Dec-17	Province of British Columbia	2.550	18-Jun-27	99.96	AAA	7,996,774.96	0.88%
31-Dec-17	Province of British Columbia	2.700	18-Dec-22	102.35	AAA	8,188,168.16	0.90%
31-Dec-17	Province of British Columbia	2.700	18-Dec-20	102.19	AAA	4,087,680.00	0.45%
31-Dec-17	Province of British Columbia	2.250	1-Mar-19	100.74	AAA	4,029,565.52	0.44%
31-Dec-17	Province of British Columbia	3.700	18-Dec-20	105.04	AAA	10,504,039.50	1.15%
31-Dec-17	Province of British Columbia	3.250	18-Dec-21	104.44	AAA	22,977,221.96	2.52%
31-Dec-17	Province of Manitoba	2.550	2-Jun-23	101.12	A+	11,623,645.13	1.27%
31-Dec-17	Province of Manitoba	2.450	2-Jun-25	101.08	A+	11,421,256.40	1.25%
31-Dec-17	Province of Manitoba	2.550	2-Jun-26	99.32	A+	14,419,823.56	1.58%
31-Dec-17	Province of Manitoba	3.850	1-Dec-21	99.45	A+	21,279,009.00	2.33%
31-Dec-17	Province of New Brunswick	2.850	2-Jun-23	102.45	A+	13,497,213.99	1.48%
31-Dec-17	Province of New Brunswick	2.600	14-Aug-26	99.47	A+	4,973,505.25	0.54%
31-Dec-17	Province of New Brunswick	2.350	14-Aug-27	96.76	A+	6,289,720.58	0.69%
31-Dec-17	Province of New Brunswick	3.350	3-Dec-21	104.46	A+	5,222,838.75	0.57%
31-Dec-17	Province of Newfoundland	2.850	2-Jun-28	99.46	A	3,978,579.08	0.44%
31-Dec-17	Province of Newfoundland	3.300	17-Oct-46	101.31	A	3,039,306.36	0.33%
31-Dec-17	Province of Newfoundland	3.000	2-Jun-26	101.66	A	15,248,744.85	1.67%
31-Dec-17	Province of Newfoundland	2.300	2-Jun-25	97.39	A	4,869,706.95	0.53%
31-Dec-17	Province of Newfoundland	1.950	2-Jun-22	98.60	A	2,958,035.82	0.32%
31-Dec-17	Province of Nova Scotia	2.150	1-Jun-25	102.19	A+	2,922,041.73	0.32%
31-Dec-17	Province of Nova Scotia	2.100	1-Jun-27	97.40	A+	6,683,675.11	0.73%

31-Dec-17	Province of Ontario	2.850	2-Jun-23	95.48	A+	10,277,395.00	1.13%
31-Dec-17	Province of Ontario	2.600	2-Jun-27	102.77	A+	20,978,861.19	2.30%
31-Dec-17	Province of Ontario	2.100	8-Sep-19	99.90	A+	25,131,254.75	2.75%
31-Dec-17	Province of Ontario	3.150	2-Jun-22	100.53	A+	43,696,886.52	4.79%
31-Dec-17	Province of Ontario	2.100	8-Sep-18	104.04	A+	5,021,308.15	0.55%
31-Dec-17	Province of Price Edward Island	3.700	2-Sep-20	104.20	A	4,532,818.45	0.50%
31-Dec-17	Province of Quebec	3.000	1-Sep-23	103.62	AA-	2,072,460.00	0.23%
31-Dec-17	Province of Quebec	3.750	1-Sep-24	108.19	AA-	5,409,741.45	0.59%
31-Dec-17	Province of Quebec	2.500	1-Sep-26	99.59	AA-	19,917,817.20	2.18%
31-Dec-17	Province of Quebec	2.750	1-Sep-27	101.34	AA-	10,134,286.90	1.11%
31-Dec-17	Province of Quebec	3.500	1-Dec-22	105.88	AA-	13,763,927.84	1.51%
31-Dec-17	Province of Saskatchewan	3.200	3-Jun-24	104.68	AA	14,655,426.10	1.61%
31-Dec-17	Province of Saskatchewan	2.650	2-Jun-27	100.07	AA	16,011,948.96	1.75%
31-Dec-17	Province of Saskatchewan	1.950	1-Mar-19	100.38	AA	2,007,519.56	0.22%
31-Dec-17	Financement Quebec	3.500	1-Dec-19	101.12	AA-	5,055,963.05	0.55%
31-Dec-17	New Brunswick Municipal Finance Corp	2.800	20-Nov-19	101.30	A+	3,261,860.00	0.36%
31-Dec-17	New Brunswick Municipal Finance Corp	3.300	15-May-23	103.33	A+	3,573,151.40	0.39%
31-Dec-17	New Brunswick Municipal Finance Corp	2.950	8-Dec-23	101.50	A+	4,678,135.00	0.51%
31-Dec-17	New Brunswick Municipal Finance Corp	2.900	14-Jun-21	101.84	A+	3,440,222.76	0.38%
31-Dec-17	New Brunswick Municipal Finance Corp	3.050	20-Nov-20	102.19	A+	3,383,444.68	0.37%

Municipal Bonds

31-Dec-17	City of Hamilton	5.050	19-Jun-21	109.55	AA+	3,349,916.68	0.37%
31-Dec-17	City of Hamilton	4.950	31-Mar-18	100.89	AA+	4,408,805.60	0.48%
31-Dec-17	City of London	2.350	9-May-19	100.68	Aaa*	1,006,750.00	0.11%
31-Dec-17	City of London	2.100	16-Mar-24	97.38	Aaa*	973,770.00	0.11%
31-Dec-17	City of Montreal	3.150	1-Dec-36	100.47	AA-	4,018,842.00	0.44%
31-Dec-17	City of Montreal	3.000	1-Sep-27	101.50	AA-	3,045,095.13	0.33%
31-Dec-17	City of Montreal	3.000	1-Sep-25	101.92	AA-	402,596.99	0.04%
31-Dec-17	City of Montreal	3.500	1-Sep-23	105.36	AA-	8,113,092.06	0.89%
31-Dec-17	City of Montreal	2.750	1-Sep-26	99.74	AA-	3,989,792.16	0.44%
31-Dec-17	City of Ottawa	3.050	23-Apr-46	97.54	AA+	3,413,832.31	0.37%
31-Dec-17	City of Ottawa	3.050	19-Oct-19	101.98	AA+	2,549,475.00	0.28%
31-Dec-17	City of Ottawa	2.000	23-Apr-23	97.87	AA+	5,052,101.02	0.55%
31-Dec-17	City of Peterborough	4.200	5-Mar-18	100.51	AA-	2,297,704.32	0.25%
31-Dec-17	City of Peterborough	4.450	5-Mar-19	103.06	AA-	2,355,951.60	0.26%
31-Dec-17	City of Saskatoon	4.450	27-Jun-18	101.39	AAA	1,001,713.44	0.11%
31-Dec-17	City of Saskatoon	4.550	27-Jun-19	103.69	AAA	1,069,012.97	0.12%
31-Dec-17	City of Toronto	3.500	2-Jun-36	105.46	AA	3,163,692.84	0.35%
31-Dec-17	City of Toronto	3.400	21-May-24	104.72	AA	13,613,257.32	1.49%
31-Dec-17	City of Toronto	2.400	7-Jun-27	96.71	AA	9,670,627.10	1.06%
31-Dec-17	City of Toronto	4.950	27-Jun-18	101.70	AA	2,542,471.13	0.28%
31-Dec-17	City of Vancouver	3.450	2-Dec-21	104.43	AAA	8,354,294.08	0.92%
31-Dec-17	City of Vancouver	3.750	24-Oct-23	106.80	AAA	4,272,092.40	0.47%
31-Dec-17	City of Vancouver	2.850	3-Nov-27	100.83	AAA	4,033,048.04	0.44%
31-Dec-17	City of Winnipeg	4.100	1-Jun-45	114.22	AA	3,654,930.85	0.40%
31-Dec-17	Municipal Finance Authority of BC	4.150	1-Jun-21	106.71	AAA	14,938,888.02	1.64%
31-Dec-17	Quebec City	3.150	8-Dec-25	101.31	Aa2*	2,532,660.40	0.28%
31-Dec-17	Regional Municipality of Peel	3.500	1-Dec-21	104.64	AAA	12,556,486.08	1.38%
31-Dec-17	Regional Municipality of Peel	2.300	2-Nov-26	96.37	AAA	5,300,397.69	0.58%
31-Dec-17	Regional Municipality of Halton	3.300	2-Jun-23	104.28	AAA	6,621,907.00	0.73%
31-Dec-17	Regional Municipality of Waterloo	3.550	30-Nov-18	101.68	AAA	5,988,111.87	0.66%
31-Dec-17	Regional Municipality of Waterloo	3.000	21-Nov-19	101.76	AAA	4,475,356.91	0.49%
31-Dec-17	Regional Municipality of Waterloo	2.750	6-Nov-22	101.73	AAA	5,184,974.22	0.57%

City of Hamilton Future Fund

Below are the Hamilton Future Fund securities and credit ratings as at December 31, 2017. In addition to the securities below, Hamilton Utilities Corporation common shares worth \$223,996,000 were also held in the portfolio. This amount is not included in the total portfolio value shown below.

Date	Issuer Name	Annual Coupon Rate	Maturity Date	Market Price	S&P Rating	Portfolio Market Value (\$)	Market Value (%)
Provincial and Provincial Guarantee Bonds							
31-Dec-17	Province of Alberta	2.350	1-Jun-25	98.77	A+	1,975,420.22	4.45%
31-Dec-17	Province of Alberta	2.200	1-Jun-26	96.94	A+	1,938,749.20	4.37%
31-Dec-17	Province of British Columbia	2.700	18-Dec-22	102.35	AAA	4,401,140.39	9.92%
31-Dec-17	Province of Newfoundland	3.300	17-Oct-46	101.31	A	1,013,102.12	2.28%
31-Dec-17	Province of Newfoundland	3.000	2-Jun-26	101.66	A	2,033,165.98	4.58%
31-Dec-17	Province of Nova Scotia	2.150	1-Jun-25	97.40	A+	1,948,027.82	4.39%
31-Dec-17	Province of Ontario	3.150	2-Jun-22	104.04	A+	1,040,402.06	2.35%
31-Dec-17	Province of Ontario	2.850	2-Jun-23	102.77	A+	4,110,958.00	9.27%
31-Dec-17	Province of Ontario	2.600	2-Jun-27	99.90	A+	1,997,986.78	4.51%
31-Dec-17	Province of Quebec	Floating	19-Dec-18	100.40	AA-	502,015.42	1.13%
31-Dec-17	Province of Quebec	2.750	1-Sep-27	101.34	AA-	2,533,571.73	5.71%
31-Dec-17	Financement Quebec	2.450	1-Dec-19	101.12	AA-	3,539,174.14	7.98%
31-Dec-17	New Brunswick Municipal Financial Corp	3.100	30-Nov-22	102.43	A+	2,048,540.00	4.62%
Municipal Bonds							
31-Dec-17	City of London	2.550	7-Mar-25	99.28	Aaa*	297,852.00	0.67%
31-Dec-17	City of Montreal	3.000	1-Sep-25	101.92	AA-	2,114,908.25	4.77%
31-Dec-17	City of Montreal	5.000	1-Dec-18	103.05	AA-	1,030,520.84	2.32%
31-Dec-17	City of Toronto	2.400	24-Jun-26	97.41	AA	1,753,436.50	3.95%
Corporate Bonds							
31-Dec-17	Bank of Nova Scotia	2.270	13-Jan-20	100.20	A+	500,989.32	1.13%
31-Dec-17	Bank of Nova Scotia	2.090	9-Sep-20	99.50	A+	2,487,413.18	5.61%
31-Dec-17	Canadian Imperial Bank	2.040	21-Mar-22	98.26	A+	2,947,940.97	6.65%
31-Dec-17	Royal Bank of Canada	2.260	12-Mar-18	100.16	AA-	1,001,604.58	2.26%
31-Dec-17	Royal Bank of Canada	1.968	2-Mar-22	97.98	AA-	1,959,645.22	4.42%
Equivalents							
31-Dec-17	CLASSIFIED STIF I			100.00		984,238.40	2.22%
31-Dec-17	Cash					21,600.00	0.05%
						Net Accruals	166,978.76 0.38%
Total Fund						44,349,381.88	100.00%

*Ratings issued by Moody's

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 most 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
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 a limit of 25%

As at December 31, 2017 on a combined basis, the Funds were being managed in a manner that is consistent with the minimum quality requirements, maximum quantity restrictions and all other restrictions imposed on the Funds. Securities lending is allowed, and as such, monies were loaned during the year for the purpose of generating revenues for the Funds. In managing the securities lending program, RBC complied with the constraints described in the legal letter dated January 6, 2003. The ratings were assumed to be the same for all issues of an issuer. Throughout the year, reports are provided by RBC to the CIO on a weekly basis, showing the securities that the City invested in for the Reserve Fund together with each security's market value. An analysis of the reports indicates whether the securities in the Funds are consistent with the terms, conditions and guidelines stipulated in the SIP&P. Securities that are not consistent with the terms, conditions and guidelines stipulated in the SIP&P are reviewed and action is taken to remedy the situation as soon as possible.

Transactions

Activity every month consists of the receipt of investment income, new monies (proceeds from bond maturities and sales, and contributions from the City to the Funds), disbursements and rebalancing.

There were approximately net cash inflows of \$7.7 million (excluding investment income) with approximately \$163.2 million of contributions and approximately \$155.5 million of disbursements in the City of Hamilton Reserve Fund during 2017. There were approximately net cash inflows of \$8.0 million (excluding investment income) with all net cash flows generated from approximately \$8.0 million of contributions and no capital disbursements in the Hamilton Future Fund.

In terms of transactions, there were approximately \$234.1 million of purchases (62 transactions) and \$201.0 million of dispositions (22 maturities and 4 sales) for total net purchases of approximately \$33.1 million (\$7.7 million funded through net cash inflows outlined above, and \$25.4 million funded through net investment income) in the City of Hamilton Reserve Fund during 2017. As well, there were approximately \$26.5 million of purchases (63 transactions) and \$17.4 million of dispositions (18 sales and 1 maturity) for total net purchases of \$9.1 million (\$8.0 million funded through net cash inflows outlined above, and \$1.1 million funded through net investment income) in the Hamilton Future Fund during 2017. Many of the transactions for the Future Fund were related to the purchase and sale of the STIF.

The records of each transaction are summarized in the custodial statements of RBC on a monthly basis. The statement for all purchases, sales and maturities of securities (i.e. the RBC Audit Continuity Report) is provided to the City and filed/archived for review. Due to the number of transactions, it has been deemed preferable not to include the records and transaction statements in this report. We have reviewed a sample of the transaction statements against the activities recorded in the custodial statements to authenticate the nature of the transactions and the existence of their records.

Aon confirms that the date and the name of issue/issuer of each transaction have been recorded. The statements for these purchases and sales have been filed and kept in safekeeping at the following address:

City of Hamilton, City Hall
71 Main Street West, 1st Floor
Hamilton, Ontario
L8P 4Y5

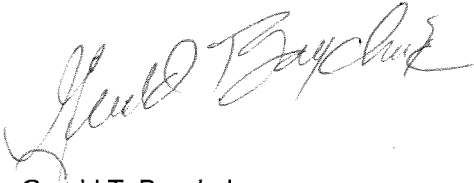
Certificate by Chief Investments Officer

This Certificate by Chief Investments Officer applies to the City of Hamilton Reserve Fund and Hamilton Future Fund ("the Funds").

The undersigned hereby confirms that throughout the reporting period of 2017.

1. The management of the Funds was in accordance with all the terms, conditions and guidelines stipulated in the SIP&P in effect during 2017.
2. The Funds were managed in compliance with the Municipal Act, 2001 Ontario Regulation 438/97 that was in effect in 2017.
3. The Chief Investments Officer, who manages the Funds, complied at all times and in all respects with the Code of Ethics and Standard of Professional Conduct as promulgated by the CFA Institute.
4. The Chief Investments Officer managed the Funds' assets with the care, diligence and skill that an investment manager of ordinary prudence would use in dealing with the assets of these types of Funds.

Certified by,



Gerald T. Boychuk
Chief Investments Officer
City of Hamilton