

The City of Hamilton Master Trust Period Ending 30 June 2018

Performance Review and Investment Manager Evaluation

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Executive Summary

Executive Summary

Commentary and Recommendations

As of 30 June 2018

Mandate	Comments	Recommendations
Total Fund	<ul style="list-style-type: none"> ▪ The Total Fund's return of 2.0% over the quarter underperformed the benchmark return by 150 basis points. ▪ Selection in Canadian and Global equities detracted value. ▪ Overweight allocation towards Canadian equities and an underweight allocation to Real Return bonds partially offset the relative underperformance. ▪ The funded ratio increased to 75.3% (from 74.6%) over the second quarter. ▪ The bond allocation as of 30 June 2018 was within the range determined acceptable for the current funded ratio of 75.3%; therefore, the asset mix does not require rebalancing. 	<ul style="list-style-type: none"> ▪ Continue to monitor.
Guardian	<ul style="list-style-type: none"> ▪ Guardian's Q2 return of 6.2% underperformed the Index by 60 basis points. ▪ Security selection was the primary cause of underperformance. Weak picks in all sectors except Materials and Telecomm detracted value. ▪ Sector allocation had a positive impact as overweight to Energy and Info Tech, and underweights to Financials and Telecomm partially offset the weak relative performance. 	<ul style="list-style-type: none"> ▪ No action required.
Letko	<ul style="list-style-type: none"> ▪ Letko's Q2 return of 4.1% was 270 basis points below the Index return. ▪ Security selection was the primary cause of underperformance. Weak picks in all sectors except Energy, Telecomm and Utilities detracted value. ▪ Asset allocation was positive, underweight to Financials and Utilities partially offset the weak relative performance. 	<ul style="list-style-type: none"> ▪ No action required.

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As of 30 June 2018

Mandate	Comments	Recommendations
Aberdeen	<ul style="list-style-type: none"> Aberdeen's Q2 return of 0.3% underperformed the index by 350 basis points. Aberdeen's underperformance can be attributed to stock selection, with weak picks in all sectors except for Materials detracted value. Asset allocation had a neutral effect. 	<ul style="list-style-type: none"> Aberdeen Global Equity strategy had net outflow of \$4.04 billion (USD) in 2017 (including Global Equity SRI strategy). Our rating for the global equity strategies was changed to "Sell." We recommend that the City of Hamilton consider the results of Global Equity search performed in 2017.
Brandes	<ul style="list-style-type: none"> Brandes' Q2 return of 1.6% underperformed the Index by 220 basis points. Brandes' underperformance was due to stock selection and asset allocation. Weak picks in Consumer Discretionary, Energy, Telecomm and Utilities sectors, along with underweights to Info Tech and Materials and an overweight to Financials sectors weighed on returns. 	<ul style="list-style-type: none"> No action required.
GMO	<ul style="list-style-type: none"> GMO's return of -1.9% over the quarter underperformed the Index by 570 basis points. Underperformance was due to stock selection as weak picks in all sectors except for Health Care detracted value. 	<ul style="list-style-type: none"> Effective 30 June 2017, GMO's Global Equity team assumed portfolio management responsibilities for the strategies previously managed by the International Active team. No action required
TDAM	<ul style="list-style-type: none"> TDAM long bond portfolio returned 0.9% over the quarter, matching the index return. TDAM's real return bond return of 2.1% outperformed the Index by 10 basis points for the quarter. On 10 July 2018, Toronto Dominion Bank ("TD") announced its acquisition of Greystone Capital Management Inc. ("GCMI"), pending regulatory approval. Aon will continue to monitor the progress of this transaction and integration of GCMI within TD after the deal closes. We are not recommending any changes at this point in time and further updates will be provided as material information becomes available. See Appendix C for flash report. 	<ul style="list-style-type: none"> No action required.

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Commentary and Recommendations

As of 30 June 2018

Governance	Comments	Recommendations
Statement of Investment Policies and Procedures (SIPP)	<ul style="list-style-type: none"> Aon had reviewed and updated the Statement of Investment Policies and Procedures (SIPP) in late 2017. SIPP and form 14 were filed with FSCO in January 2018. 	<ul style="list-style-type: none"> No action required.
Ontario Funding Reform	<ul style="list-style-type: none"> In the second quarter of 2017, the Ontario government published further guidance on the upcoming changes to the funding framework for defined benefit plans. Solvency funding will no longer be required for plans that are at least 85% funded on this basis. Going-concern funding will be strengthened by shortening the amortization period from 15 to 10 years, and the funding of a going-concern provision for adverse deviations i.e. a funding reserve. In the fourth quarter of 2017, the government provided details on the calculation of the provision for adverse deviations and it is contingent on the following three factors: <ul style="list-style-type: none"> Whether the plan is open or closed to new entrants The plan's allocation to non-fixed income assets The degree to which the plan's going-concern discount rate is greater than a benchmark discount rate In addition, the maximum insured benefit provided by the Pension Benefits Guarantee Fund will increase from \$1,000 to \$1,500 per month. Final regulations posted on 20 April 2018 are consistent with the key components described above and are effective 1 May 2018. 	<ul style="list-style-type: none"> Discuss the impact of the Ontario Funding Reform with your investment consultant.

Executive Summary

Latest Thinking

During the last quarter, we produced papers on the following topics. Although these topics may not be directly applicable to your plan, they may be of general interest and provide some insight into Aon's global research. For more details, please contact your Aon Investment Consultant.

Topic	Summary
Global Perspectives on Responsible Investing	<p>Over the course of the past year, Aon has noted a dramatic upsurge in the number of institutional clients who are exploring or implementing responsible investing ("RI") initiatives. To stay current with the evolving landscape, Aon launched a global responsible investment survey to capture current attitudes towards and developments in investors' RI thinking.</p> <p>This paper discusses the survey, including methodology, demographics and key findings, as well as investor attitudes towards RI and practical applications of RI within portfolios.</p> <p>http://www.aon.com/getmedia/8bd5172a-ab8b-4aee-aadc-10b59aba426a/Global-Perspectives-On-Responsible-Investing.aspx</p>
Guide to Aon's ESG Ratings for fund managers	<p>While Environmental, Social and Governance (ESG) has always been considered as part of Aon's due diligence on managers, we have recently increased our efforts in this area and developed an explicit ESG rating system for buy-rated investment strategies which is designed to assess whether and how well investment managers integrate Responsible Investment (RI), and more specifically ESG considerations, into their investment decision making process.</p> <p>This paper sets out the overall rationale for assessing managers on their ESG capabilities, provides an overview of the process itself and includes an explanation of the 1-4 ratings scale.</p> <p>http://www.aon.com/getmedia/0b52d7ec-db77-41bc-bb45-9386034db392/AonCanada-Publication-Investment-GuideESGRatings.aspx</p>
Direct Lending	<p>Private debt includes a wide range of illiquid credit strategies, including distressed debt, direct lending, mezzanine debt, special situations, and venture debt. This paper, written in the U.S., discusses direct lending, a growing segment of the private debt market. The current market dynamics are favorable for direct lending as historical players are leaving the market, driven partially by shifting regulations. Key risks and considerations are also identified.</p> <p>http://www.aon.com/getmedia/414c12e9-ac55-421d-9da7-16aa4124acc7/AonCanada-Report-Investment-DirectLending.aspx</p>

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Executive Summary

Trailing Period Performance

As of 30 June 2018

	Allocation		Performance (%)							
	Market Value (\$000)	%	1 Quarter	1 Year	2 Years	3 Years	4 Years	5 Years	10 Years	
Total Fund	339,904	100.0	2.0 (77)	7.3 (50)	8.1 (55)	6.5 (44)	6.4 (75)	9.0 (66)	6.6 (70)	
Benchmark			3.5 (15)	7.7 (31)	8.0 (58)	6.5 (39)	7.0 (47)	9.3 (54)	6.3 (76)	
Value Added			-1.5	-0.4	0.1	0.0	-0.6	-0.3	0.3	
Canadian Equity	106,662	31.4	4.9 (77)	12.6 (17)	15.1 (7)	10.6 (4)	8.1 (8)	12.1 (9)	7.8 (21)	
Guardian (including cash)	41,133	12.1	6.2 (41)	10.8 (38)	11.3 (39)	8.5 (29)	6.5 (37)	10.3 (46)	5.5 (64)	
S&P/TSX Composite			6.8 (27)	10.4 (45)	10.7 (57)	7.0 (65)	4.9 (69)	9.2 (70)	4.2 (89)	
Value Added			-0.6	0.4	0.6	1.5	1.6	1.1	1.3	
Letko (including cash)	65,528	19.3	4.1 (89)	13.4 (11)	17.4 (3)	11.8 (2)	9.1 (4)	13.2 (4)	9.3 (12)	
S&P/TSX Composite			6.8 (27)	10.4 (45)	10.7 (57)	7.0 (65)	4.9 (69)	9.2 (70)	4.2 (89)	
Value Added			-2.7	3.0	6.7	4.8	4.2	4.0	5.1	
Global Equities	85,045	25.0	-0.6 (95)	8.3 (80)	13.7 (70)	7.7 (88)	8.4 (94)	11.3 (95)	6.7 (97)	
Aberdeen	19,172	5.6	0.3 (89)	7.9 (82)	12.1 (79)	7.6 (90)	7.6 (98)	10.3 (97)	-	
MSCI World (Net) (CAD)			3.8 (28)	12.5 (48)	15.3 (59)	10.4 (52)	12.5 (60)	14.9 (56)	9.1 (71)	
Value Added			-3.5	-4.6	-3.2	-2.8	-4.9	-4.6	-	
Brandes	18,630	5.5	1.6 (76)	9.3 (72)	15.6 (57)	7.6 (89)	9.5 (88)	13.6 (77)	8.1 (87)	
MSCI World (Net) (CAD)			3.8 (28)	12.5 (48)	15.3 (59)	10.4 (52)	12.5 (60)	14.9 (56)	9.1 (71)	
Value Added			-2.2	-3.2	0.3	-2.8	-3.0	-1.3	-1.0	
GMO	47,244	13.9	-1.9 (100)	8.1 (82)	13.9 (70)	8.0 (85)	9.0 (92)	11.8 (92)	-	
MSCI World (Net) (CAD)			3.8 (28)	12.5 (48)	15.3 (59)	10.4 (52)	12.5 (60)	14.9 (56)	9.1 (71)	
Value Added			-5.7	-4.4	-1.4	-2.4	-3.5	-3.1	-	

*GMO returns are reported net-of-fees.
Parentheses contain percentile rankings.

Executive Summary

Trailing Period Performance

As of 30 June 2018

	Allocation		Performance (%)						
	Market Value (\$000)	%	1 Quarter	1 Year	2 Years	3 Years	4 Years	5 Years	10 Years
Canadian Fixed Income	144,364	42.5	1.4	2.8	0.8	3.1	4.1	4.9	5.0
TDAM Long Bonds	76,036	22.4	0.9	1.8	1.0	4.0	5.2	5.8	-
FTSE TMX Long Term Bond			0.9	1.8	1.1	4.0	5.5	5.9	6.7
Value Added			0.0	0.0	-0.1	0.0	-0.3	-0.1	-
TDAM Real Return Bonds	68,254	20.1	2.1	4.2	0.6	2.1	3.0	4.1	-
FTSE TMX Real Return Bond			2.0	4.0	0.6	2.1	3.0	4.0	4.3
Value Added			0.1	0.2	0.0	0.0	0.0	0.1	-
TDAM Cash	74	0.0	-	-	-	-	-	-	-
Operating Account	3,834	1.1							

*GMO returns are reported net-of-fees.
Parentheses contain percentile rankings.

Executive Summary

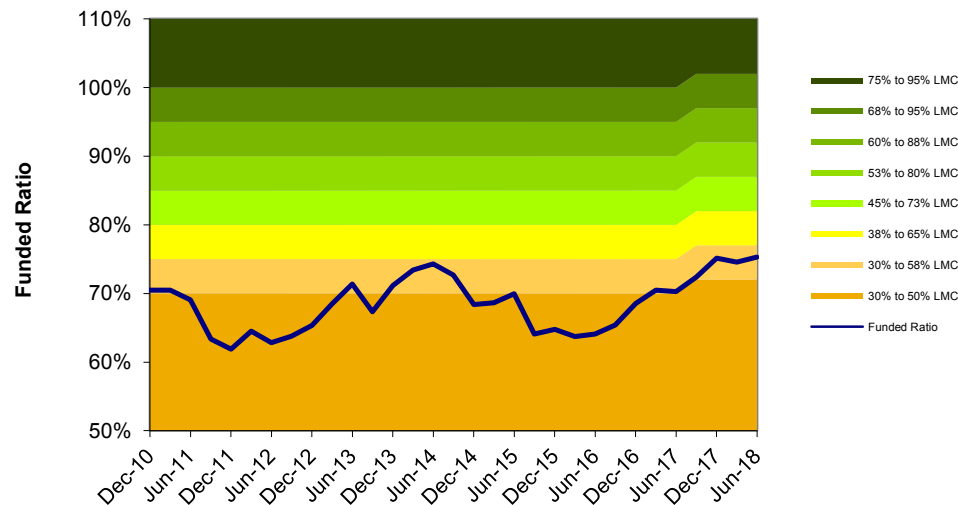
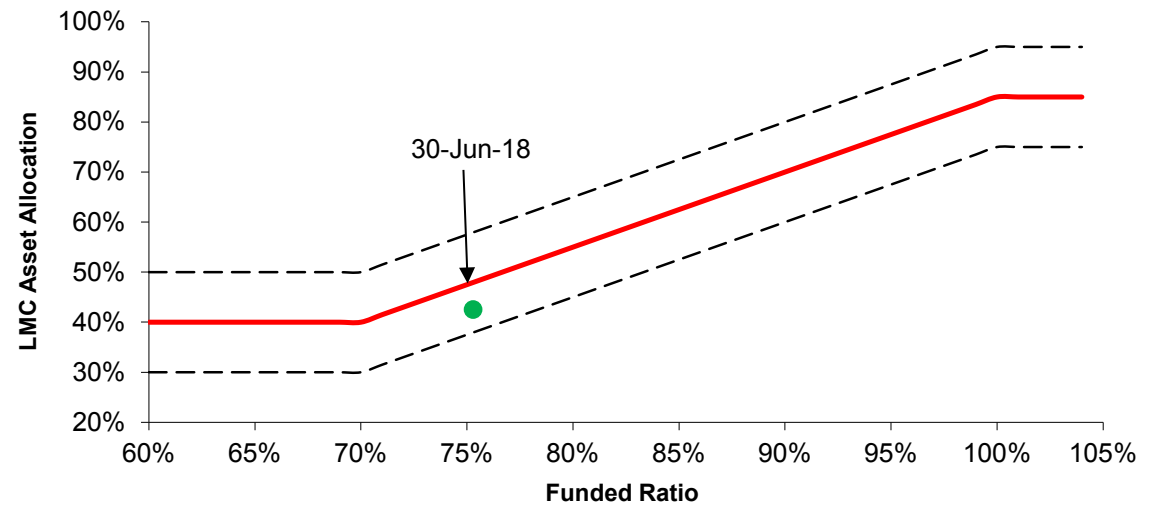
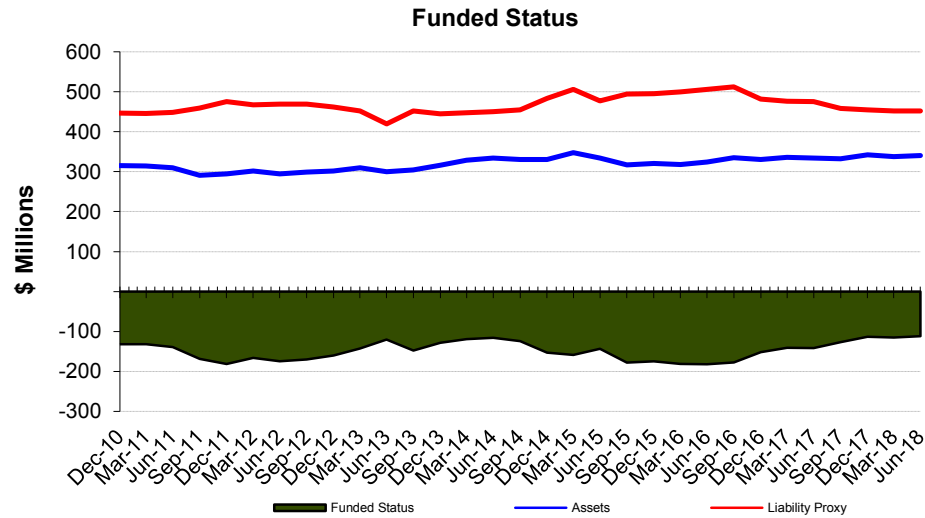
Trailing Period Performance

As of 30 June 2018

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Total Fund	7.3 (50)	9.0 (67)	3.2 (39)	6.3 (86)	19.8 (30)	9.6 (71)	2.3 (22)	12.1 (85)	7.7 (50)	-9.4 (51)	-5.4 (92)
Benchmark	7.7 (31)	8.3 (77)	3.7 (31)	8.5 (59)	19.1 (42)	6.5 (96)	1.4 (38)	13.2 (68)	8.1 (45)	-10.6 (65)	0.3 (34)
Value Added	-0.4	0.7	-0.5	-2.2	0.7	3.1	0.9	-1.1	-0.4	1.2	-5.7
Canadian Equities	12.6 (17)	17.7 (3)	2.1 (50)	1.1 (44)	29.7 (50)	19.0 (14)	-5.9 (31)	21.4 (47)	11.0 (60)	-21.1 (41)	-0.6 (71)
Guardian (including cash)	10.8 (38)	11.7 (55)	3.3 (31)	0.7 (48)	26.7 (78)	9.3 (82)	-3.1 (17)	21.6 (44)	4.6 (100)	-22.3 (48)	4.0 (45)
S&P/TSX Composite	10.4 (45)	11.0 (65)	-0.2 (63)	-1.2 (63)	28.7 (65)	7.9 (93)	-10.3 (64)	20.9 (55)	12.0 (55)	-25.7 (67)	6.7 (33)
Value Added	0.4	0.7	3.5	1.9	-2.0	1.4	7.2	0.7	-7.4	3.4	-2.7
Letko (including cash)	13.4 (11)	21.5 (1)	1.5 (54)	1.4 (41)	31.1 (35)	24.2 (2)	-6.9 (34)	20.4 (63)	14.2 (32)	-17.4 (19)	-3.1 (78)
S&P/TSX Composite	10.4 (45)	11.0 (65)	-0.2 (63)	-1.2 (63)	28.7 (65)	7.9 (93)	-10.3 (64)	20.9 (55)	12.0 (55)	-25.7 (67)	6.7 (33)
Value Added	3.0	10.5	1.7	2.6	2.4	16.3	3.4	-0.5	2.2	8.3	-9.8
Global Equities	8.3 (80)	19.4 (52)	-3.4 (77)	10.5 (91)	23.9 (64)	18.7 (85)	2.0 (40)	17.6 (68)	-0.1 (85)	-21.2 (73)	-27.0 (99)
Aberdeen	7.9 (82)	16.4 (71)	-1.0 (60)	7.6 (96)	22.0 (79)	17.2 (91)	4.3 (26)	18.3 (60)	-	-	-
MSCI World (Net) (CAD)	12.5 (48)	18.2 (60)	1.1 (43)	18.9 (59)	25.2 (53)	22.7 (57)	0.4 (52)	18.5 (59)	0.8 (75)	-19.3 (62)	-14.8 (61)
Value Added	-4.6	-1.8	-2.1	-11.3	-3.2	-5.5	3.9	-0.2	-	-	-
Brandes	9.3 (72)	22.2 (29)	-6.8 (91)	15.3 (78)	31.6 (7)	27.3 (24)	-1.5 (64)	17.2 (71)	-0.4 (87)	-21.2 (73)	-27.5 (99)
MSCI World (Net) (CAD)	12.5 (48)	18.2 (60)	1.1 (43)	18.9 (59)	25.2 (53)	22.7 (57)	0.4 (52)	18.5 (59)	0.8 (75)	-19.3 (62)	-14.8 (61)
Value Added	-3.2	4.0	-7.9	-3.6	6.4	4.6	-1.9	-1.3	-1.2	-1.9	-12.7
GMO	8.1 (82)	20.0 (47)	-2.8 (72)	11.9 (90)	23.8 (65)	19.0 (83)	2.9 (33)	16.8 (74)	-	-	-
MSCI World (Net) (CAD)	12.5 (48)	18.2 (60)	1.1 (43)	18.9 (59)	25.2 (53)	22.7 (57)	0.4 (52)	18.5 (59)	0.8 (75)	-19.3 (62)	-14.8 (61)
Value Added	-4.4	1.8	-3.9	-7.0	-1.4	-3.7	2.5	-1.7	-	-	-
Canadian Fixed Income	2.8	-1.2	7.8	7.5	8.1	-3.9	10.4	5.0	7.8	6.9	6.6
TDAM Long Bonds	1.8 (83)	0.3 (85)	10.2 (29)	9.0 (89)	8.0 (39)	-2.0 (26)	-	-	-	-	-
FTSE TMX Long Term Bond	1.8 (80)	0.4 (75)	9.9 (51)	10.1 (34)	7.6 (70)	-2.9 (84)	18.8 (23)	7.0 (70)	10.9 (72)	4.6 (76)	6.9 (65)
Value Added	0.0	-0.1	0.3	-1.1	0.4	0.9	-	-	-	-	-
TDAM Real Return Bonds	4.2	-2.9	5.4	5.8	8.2	-8.5	-	-	-	-	-
FTSE TMX Real Return Bond	4.0	-2.7	5.3	5.6	8.1	-9.9	14.9	11.7	12.2	-3.8	15.2
Value Added	0.2	-0.2	0.1	0.2	0.1	1.4	-	-	-	-	-

Parentheses contain percentile rankings.

Quarterly Performance Report for the City of Hamilton Funded Status and Glide Path Information for June 30, 2018



Snapshot (Wind-Up)

	30-Sep-17	31-Dec-17	31-Mar-18	30-Jun-18
Market value of assets (\$ Millions)	\$331.8	\$341.9	\$337.4	\$339.9
Liability proxy (\$ Millions)	\$458.2	\$454.9	\$452.2	\$451.4
Funded status (\$ Millions)	(\$126.4)	(\$113.0)	(\$114.8)	(\$111.5)
Funded ratio	72.4%	75.2%	74.6%	75.3%
Current LMC Asset Allocation	40.4%	39.4%	42.2%	42.5%

Rebalancing

- The rebalancing strategy for this plan requires that assets be rebalanced to the target allocation (indicated by the red line) whenever the LMC Asset Allocation falls outside of the range deemed acceptable for a given funded ratio (indicated by the dashed lines).
- Because the LMC Asset Allocation as of June 31, 2018 is within the range determined acceptable for the current funded ratio (75.3%), the asset mix does not require rebalancing.