



INFORMATION REPORT

TO:	Chair and Members Audit, Finance and Administration Committee
COMMITTEE DATE:	May 2, 2019
SUBJECT/REPORT NO:	Hamilton Future Fund Investment Performance Report - December 31, 2018 (FCS19027) (City Wide)
WARD(S) AFFECTED:	City Wide
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SIGNATURE:	

COUNCIL DIRECTION

Not applicable.

INFORMATION

The City of Hamilton Future Fund portfolio of investments had an earnings rate of 2.62% for the 12 months ending December 31, 2018 and an average earnings rate of 2.45% 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 \$1,232,579 in bond interest, net realized capital gains / losses and lending revenue over the last 12 months ending December 31, 2018. The total return of \$1,232,579 was realized on an investment at an average cost of \$47,275,151, giving a percentage return on cost of 2.63%. Bond lending revenues of \$14,128 are included in the earnings rate of 2.62%. Interest, net realized capital gains / losses and lending income over the last five years have averaged \$1.10 M annually.

OUR Vision: To be the best place to raise a child and age successfully.

OUR Mission: To provide high quality cost conscious public services that contribute to a healthy, safe and prosperous community, in a sustainable manner.

OUR Culture: Collective Ownership, Steadfast Integrity, Courageous Change, Sensational Service, Engaged Empowered Employees.

**SUBJECT: Hamilton Future Fund Investment Performance Report –
December 31, 2018 (FCS19027) (City Wide) – Page 2 of 4**

As at December 31, 2018, net unrealized capital gain was \$122,637 and a net capital loss of \$8,272 was realized over the past 12 months. The duration of the portfolio of investments was 5.69 years as at December 31, 2018 compared with 5.37 years as at December 31, 2017.

As of December 31, 2018, the market value of the portfolio was \$45,629,304 compared with \$44,349,382 as at December 31, 2017, an increase of \$1,279,922.

For the 12 months ending December 31, 2018, the overall return (includes interest, bond lending revenue, realized and unrealized capital gains / losses) was 1.95%, outperforming the benchmark return of 1.79% by 16 basis points. Over the past five years, the overall return has averaged 2.38% per annum, outperforming the average benchmark return over the same five-year period of 1.96% by 42 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, 2018 were 1.51% for bonds and 1.43% 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 1.50% or 45 basis points less than the actual return of 1.95%. Using an average portfolio market value of \$47,010,291 for the past 12 months, an increase of 0.45% in overall return resulted in a revenue increase of approximately \$211,546. The One Funds underperformance over this period is attributed to its policy of investing in short-term bonds. The FTSE TMX Mid-Government Index returned 2.12% and the FTSE TMX Short Government Index returned 1.96%.

Table 1 summarizes the investment return indicators.

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

	12 Months ended 12/31/2018	12 Months ended 12/31/2017	12 Months ended 12/31/2016	12 Months ended 12/31/2015	12 Months ended 12/31/2014
Policy Target	1.79%	0.42%	0.52%	2.72%	4.34%
Hamilton Future Fund Portfolio	1.95%	1.50%	1.61%	2.57%	4.25%
One Fund – Bonds	1.51%	-0.15%	0.68%	1.94%	2.91%
One Fund –Money Mkt.	1.43%	0.60%	0.50%	0.67%	0.86%
FTSE TMX – Short Government	1.96%	-0.38%	0.35%	2.54%	2.76%
FTSE TMX – Mid Government	2.12%	0.46%	0.87%	5.11%	9.11%
Bond Lending Revenue	14,128	\$9,479	\$6,071	\$5,252	\$2,411
Earnings Rate (Excludes Capital Gains/Losses)	2.62%	2.55%	2.66%	2.61%	2.52%

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 2, 2019	Interest Rate January 2, 2018	Interest Rate January 3, 2017
One Month (T-Bill)	1.63%	0.95%	0.40%
2 year	1.86%	1.68%	0.77%
5 year	1.85%	1.86%	1.14%
10 year	1.92%	2.05%	1.74%

Through 2018, 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 \$60 a barrel before closing 2018 at \$45 were moving higher. This in turn led to increasing upward pressure on the Canadian dollar with an increase in its value year end. The Canadian dollar ended the year at \$0.733 US, having closed 2017 at \$0.797 US. This was due to decreased projected global economic activity and a decrease in general commodities pricing, especially oil. The portfolio of bonds, despite having a high proportion of near 10-year terms, outperformed the One Fund and the benchmark.

The Canadian economy performed well. Growing 1.8 % overall, it lagged the projected year-end growth rate of 2.0% by 0.2%, which led to the short-term rate increases late in the year. The Bank of Canada had projected 2.0% growth in 2017 for 2018. Going forward, the projected growth for 2019 is less than 1.8%. Some have speculated on a rate of less than 1%, which would be underperforming the target growth of 2.0% per year. This would indicate long-term slow growth with rates on hold, awaiting a return to July 2018 levels.

Concerns with trade relations in North America globally rose, specifically trade war fears due to tariff threats by the United States. The United States have proceeded to place tariffs on steel imports at different levels with all countries, including Canada. As well, Canada and the United States' negotiations on the North American Free Trade Agreement (NAFTA) were concluded without a clear resolution or acceptance of the United States, Mexico and Canada agreement (USMCA). This agreement is experiencing problems being passed by Congress, leaving uncertainty in trade relations. The potential exit of Britain from the European Union is also contributing to overall economic uncertainty, slow growth and declining economic activity. The uncertainty of the negotiations has stopped the Bank of Canada from increasing rates further in the near term, even though oil recovered to nearly \$60 a barrel.

GB/BT/dt