



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

TO:	Chair and Members Audit, Finance and Administration Committee
COMMITTEE DATE:	May 2, 2019
SUBJECT/REPORT NO:	Treasurer's Investment Report 2018 Fiscal Year by Aon (FCS19019) (City Wide)
WARD(S) AFFECTED:	City Wide
PREPARED BY:	Rosaria Morelli (905) 546-2424 Ext. 1390
SUBMITTED BY:	Brian McMullen Acting General Manager, Finance and Corporate Services Corporate Service Department
SIGNATURE:	

RECOMMENDATION

That Report FCS19019 "Treasurer's Investment Report 2018 Fiscal Year by Aon", 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 of Hamilton's Statement of Investment Policies and Procedures (the "SIPP"), the Treasurer of the City of Hamilton (the Acting General Manager of Finance and Corporate Services) is presenting to Council the City of Hamilton Reserve Funds Treasurer's Investment Report 2018 Fiscal Year (the "Treasurer's Report"), attached as Appendix "A" to Report FCS19019.

The Treasurer's Report is an investment report for the City of Hamilton Reserve Fund and the Hamilton Future Fund (the "Funds") for the City's fiscal year ending December 31, 2018 and is prepared by Aon on behalf of the Treasurer of the City of Hamilton.

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All investments met the eligibility requirements as prescribed by the Ontario Regulation 438/97 ("O. Reg. 438/97") and were made in accordance with the investment policies and goals adopted by the City of Hamilton's SIPP (the "City's SIPP").

Investment Performance of the Funds

Report FCS19028 provides details on the investment performance of the Reserve Fund as at December 31, 2018. Report FCS19027 provides details on the investment performance of the Hamilton Future Fund as at December 31, 2018.

The market rates of return for the 12-month period ending December 31, 2018 were 1.82% for the Reserve Fund and 1.95% for the Hamilton Future Fund. The Reserve Fund outperformed the benchmark rate of return of 1.79% by 0.03%, attributed mostly to its overweight position in longer-dated bonds, which outperformed shorter-dated bonds during the year 2018. The Hamilton Future Fund outperformed the benchmark rate of return of 1.79% by 0.16%, 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. The market rate of return is provided by RBC Investor & Treasury Services ("RBCITS"), the City's custodian. The market rates of return for the Funds given above as well as those for each quarter-end in fiscal year 2018 and for the two, three and four-year periods ending December 31, 2018, were verified (allowing for a tracking error of plus or minus 0.10%) by Aon, thereby providing an independent third-party review of the Funds' investment performance.

The annual rates of return on average cost for the 12-month period ending December 31, 2018 were 2.67% for the Reserve Fund and 2.63% for the Hamilton Future Fund. The rate of return on average cost uses original cost to value the securities and includes both income and net realized gains and losses but excludes net unrealized gains and losses.

Investment in City of Hamilton Securities

During the fiscal year 2018, the City of Hamilton (City) was invested in its own long-term securities, which had a market value of \$3.3 M or a proportion of 0.33% of the total market value of the Reserve Fund as at December 31, 2018. As at December 31, 2017, the proportion was 0.85%. The bulk of the decline, in proportion, is attributed to the maturity of the City of Hamilton bond that had a maturity date of March 31, 2018, a coupon rate of 4.95%, a par value of \$4,370,000 and a maturity value of \$4,370,000. The balance of the decline in the proportion is attributed to market fluctuation.

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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 2018. During the fiscal year 2018, the City was not invested in its own short-term securities, as was the case during fiscal year 2017.

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's SIPP, the Treasurer of the City 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 on behalf of the Treasurer, is the Treasurer's Report and is attached as Appendix "A" to Report FCS19019.

As required by O. Reg. 438/97, the investment report includes 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;
- 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; and,
- if applicable, a statement by the Treasurer with regard to O. Reg. 438/97, Section 8(2.2) and Section 8(3).

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

On behalf of the Treasurer, Aon prepared the Treasurer's Report, attached as Appendix "A" to Report FCS19019.

ANALYSIS AND RATIONALE FOR RECOMMENDATION(S)

Funds' Performance (Page 4 and Page 5 of the Treasurer's Report)

The market rates of return for the Reserve Fund and the Hamilton Future Fund are provided by RBCITS. Aon verified RBCITS' market rates of return for each quarter-end in fiscal year 2018 and for each of the one, two, three and four-year periods. Aon confirms that their market rate of return matches that of RBCITS for each period considered, allowing for a tracking error of plus or minus 0.10%. Table 1 presents these results for most of the periods considered and includes a comparison of the market rate of return with the benchmark rate of return for each period shown.

Table 1
Funds' Performance (%) and Comparison with Benchmark

	Q1 2018 %	Q2 2018 %	Q3 2018 %	Q4 2018 %	1 Year %	3 Year %
Benchmark	0.17	0.37	-0.34	1.59	1.79	0.91
Reserve Fund						
RBCITS	-0.07	0.48	-0.33	1.75	1.82	1.53
Aon Hewitt	-0.07	0.48	-0.33	1.74	1.83	1.54
Difference	0.00	0.00	0.00	0.01	-0.01	-0.01
Hamilton Future Fund						
RBCITS	0.01	0.62	-0.56	1.89	1.95	1.68
Aon Hewitt	0.01	0.58	-0.57	1.88	1.90	1.69
Difference	0.00	0.04	0.01	0.01	0.05	-0.01
Reserve Fund (RBCITS) Minus Benchmark	-0.24	0.11	0.01	0.16	0.03	0.62
Hamilton Future Fund (RBCITS) Minus Benchmark	-0.16	0.25	-0.22	0.30	0.16	0.77

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The benchmark for the Funds is composed of 10% 91-day T-Bills, 62.5% FTSE Short-Term All Government Bond Index and 27.5% FTSE All Government Bond Index.

For the one-year period ending December 31, 2018, the Reserve Fund outperformed the benchmark by 0.03% and the Hamilton Future Fund outperformed the benchmark by 0.16%. The modest outperformances of the Reserve Fund and the Hamilton Future Fund are attributed to their overweight position in longer-dated bonds that outperformed shorter-dated bonds primarily in the last quarter of 2018.

During the first two quarters of 2018 mid and long-term interest rates generally increased but by the end of the second quarter reversed course and ended approximately unchanged, relative to January 1, 2018. Similarly, during the third quarter of 2018, these interest rates again increased but then during the latter part of the fourth quarter of 2018 reversed course and ended on December 31, 2018 only slightly lower relative to January 1, 2018. For instance, the yield on the Government of Canada bond with a term to maturity of 10 years was 2.05% at the beginning of the year (2018) and was 1.97% at the end of the year (2018).

Types of Securities (Page 6 to Page 8 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, which is set out in the Sector and Issuer Limitations in the City's SIPP and is given on Page 6 of the Treasurer's Report.

Portfolio Securities (Page 9 to Page 12 of the Treasurer's Report)

As at December 31, 2018, the total market value (including net accruals) of the securities in the Reserve Fund was \$999,417,637 of which \$38,675,421 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, 2018, the City held shares with a market value of \$33,637,603 in the One Investment Program Equity Portfolio and held shares with a market value of \$5,037,818 in the One Investment Program Universe Corporate Bond Portfolio.

As at December 31, 2018, the total market value (including net accruals) of the securities in the Hamilton Future Fund was \$47,159,468 of which \$1,530,164 consists of investments in the One Investment Program Equity Portfolio.

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During the fiscal year 2018, the City was invested in its own long-term securities, which had a market value of \$3.3 M or a proportion of 0.33% of the total market value of the Reserve Fund as at December 31, 2018. As at December 31, 2017, the proportion was 0.85%. The bulk of the decline in proportion is attributed to the maturity of the City of Hamilton bond that had a maturity date of March 31, 2018, a coupon rate of 4.95%, a par value of \$4,370,000 and a maturity value of \$4,370,000.

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 2018. During fiscal year 2018, the City was not invested in its own short-term securities, as was the case during fiscal year 2017.

Restrictions (Page 13 and Page 14 of the Treasurer's Report)

Table 2, from the Treasurer's Report, shows that as at December 31, 2018, 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
Constraints		
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%

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Table 3, which is not contained in the Treasurer's Report, shows the Funds' credit exposure with respect to the approved issuers given in the City's SIPP.

Table 3
Credit Exposure¹ (%) – As at December 31, 2018

Issuer of Sector	Reserve Fund	Hamilton Future Fund ²	The Funds ³	Maximum Limit %
Cash or STIF	0.0%	1.2%	0.0%	
Canada				
Direct	1.0%	0.0%	1.0%	100%
Guarantee	7.3%	0.0%	7.0%	25%
Provinces				
Ontario	8.9%	21.5%	9.5%	50%
Other	39.5%	45.1%	39.8%	100%
Municipalities				
Hamilton	0.3%	0.0%	0.3%	25%
Other	14.8%	15.2%	14.7%	30%
Banks and Credit Union				50%
Schedule I	20.6%	13.8%	20.3%	50%
Credit Union	4.1%	0.0%	3.9%	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	3.0%	3.2%	3.0%	
Universe Corporate Bond Portfolio	0.5%	0.0%	0.5%	
Total	100.0%	100.0%	100.0%	

Notes to Table 3:

¹ 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.

² 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.

³ "The Funds" equal the Reserve Fund and the Hamilton Future Fund.

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Activity and Transactions (Page 15 of the Treasurer's Report)

During the fiscal year 2018, the total dollar amount of cash inflows for the Reserve Fund were \$305.7 M, consisting of \$114.6 M in bond sales and maturities, \$16.0 M in investment income and \$175.1 M in contributions or transfers. Cash outflows were also \$305.7 M and consisted of \$205.9 M in purchases and \$99.8 M in distributions.

During the fiscal year 2018, the total dollar amount of cash inflows for the Hamilton Future Fund were \$36.1 M, consisting of \$25.6 M in bond sales and maturities, \$1.2 M in investment income and \$9.3 M in contributions or transfers. Cash outflows were also \$36.1 M and consisted of \$27.3 M in purchases and \$8.8 M in distributions.

Certificate by Chief Investments Officer (CIO) (Page 16 of the Treasurer's Report)

The CIO has certified on page 16 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

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 2018 Fiscal Year

RM/dt