

INFORMATION REPORT

TO:	Chair and Members HMRF / HWRF Pension Administration Sub-Committee
COMMITTEE DATE:	December 10, 2019
SUBJECT/REPORT NO:	Master Trust Pension Investment Performance Report as at June 30, 2019 (FCS19075) (City Wide)
WARD(S) AFFECTED:	City Wide
PREPARED BY:	Gerald T. Boychuk (905) 546-2424 Ext. 4321 Brandon A. Teglas (905) 546-2424 Ext. 4363
SUBMITTED BY:	Brian McMullen Director, Financial Planning, Administration and Policy Corporate Services Department
SIGNATURE:	

Council Direction:

Not Applicable.

Information:

Attached as Appendix “A” to Report FCS19075 is Aon Hewitt’s investment performance report for the Hamilton Municipal Retirement Fund (HMRF), the Hamilton-Wentworth Retirement Fund (HWRF) and the Hamilton Street Railway (HSR), as of June 30, 2019. Together, the three pension funds make up the Master Trust, which is referred to as the “Plan” in Report FCS19075.

The Plan’s return for the one-year period ended June 30, 2019 of 4.1% underperformed its benchmark of 6.4% by 2.3%. The market value of the assets of the Plan totalled \$336.4 M compared to June 30, 2018 of \$339.9 M, a decrease of \$3.5 M.

The funded ratio increased to 76.2%. Currently, a funding ratio of 76.2% enables a range of 37% to 57% for the Liability Matching Component (LMC) and the fund is at 48.0% (Fixed Income). The ultimate target contemplates 80% fixed income as interest rates rise and value of assets increases relative to liability present values.

Table 1 shows the Plan’s one-year (ended June 30) returns, the value added, market value and funded status for the last five years.

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Table 1
Plan's One-Year (ended June 30) Returns

	12 Months Ended Jun.30/19	12 Months Ended Jun.30/18	12 Months Ended Jun.30/17	12 Months Ended Jun.30/16	12 Months Ended Jun.30/15
Plan Return	4.1%	7.3%	9.0%	3.2%	6.3%
Benchmark	6.4%	7.7%	7.5%	3.8%	8.3%
Value Added	-2.3%	-0.4%	1.5%	-0.6%	-2.0%
Market Value (\$ Millions)	\$336.4	\$339.9	\$334.3	\$324.4	\$333.6
Funded Status	76.2%	75.3%	70.3%	64.1%	70.0%

The Plan's performance may be compared to the return earned in the broader pension market in Canada. Attached as Appendix "B" to Report FCS19075, RBC Investor & Treasury Service reports its universe of pension funds, which totals C\$650 B and a median return of 2.7% in the quarter ended June 30, 2019. The Plan's quarterly return of 2.4% underperformed the universe's median quarterly return of 2.7% by 0.3%.

Asset Mix:

Table 2 shows the percentage of Plan assets in each asset class as of June 30, 2019 compared to June 30, 2018.

Table 2
Percentage of Plan Assets in Each Asset Class

Asset Class	Jun.30/19	Jun.30/18	Change	Benchmark
Canadian Equity	28.8%	31.4%	-2.6%	30.0%
Global Equity	<u>22.8%</u>	<u>25.0%</u>	<u>-2.2%</u>	30.0%
Total Equity	51.6%	56.4%	-4.8%	
Canadian Fixed Income	48.0%	42.5%	+5.5%	40.0%
Cash	0.5%	1.1%	-0.6%	

Note: Anomalies due to rounding

Managers' Performance:

Managers' investment performance relative to their benchmark is summarized in Table 3. One-year rates of return are all as of June 30, 2019.

Table 3
Managers' Performance
One-Year Period Ended Jun.30/19

	Manager Return	Benchmark Return	Value Added (Manager Return less Benchmark Return)	Percentage Total Assets
Canadian Equity:				
Guardian	4.8%	3.9%	0.9%	12.8%
Letko	-5.2%	3.9%	-9.1%	16.0%
Global Equity				
Aberdeen ⁽¹⁾	5.4%	5.7%	-0.3%	4.1%
Brandes	0.7%	5.7%	-5.0%	4.2%
GMO ⁽²⁾	2.8%	5.7%	-2.9%	14.4%
Fixed Income:				
TDAM Long Bonds ⁽³⁾	11.4%	11.4%	0.0%	25.2%
TDAM Real Return Bonds ⁽³⁾	5.1%	5.2%	-0.1%	22.8%

Notes: ⁽¹⁾ Engaged in April 2010

⁽²⁾ Engaged in July 2010

⁽³⁾ Toronto Dominion Asset Management (TDAM) engaged in March 2012

Pension Investment Transfer - Update

Three options for potential pension investment transfers previously disclosed to the Subcommittee are "Pension Pooling", migration to "OMERS" and possibly, migration to private sector management. Migration to private sector management still exists. "Pension Pooling", the creation of a large management firm from which public sector pension plans may draw on varying investment portfolios in order to fund liabilities, seems to have been put on hold with changes in Canada Pension and the shelving of the Ontario sponsored pension. However, a new entity created called Investment Management Corporation Ontario has recently been launched which may be able to undertake investments from Pension Plans as well as potentially municipalities under the Prudent Person delegation.

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The potential transfer of legacy plans in the municipal sector to OMERS is in process as Toronto and Ottawa have been reviewing the feasibility over the past year. OMERS has presented business cases to their boards on the consolidation of their legacy plans in 2016. Toronto has agreed with OMERS to a discount rate and is in the process of receiving a proposal soon and negotiating a final process. Hamilton met with representatives of OMERS who had recently assumed one of Toronto's plans. In discussions with the OMERS representatives, interest in assuming Hamilton's plan was, at best, marginal and likely very expensive in both time and cash transfer.

APPENDICES AND SCHEDULES ATTACHED

Appendix "A" to Report FCS19075 – City of Hamilton Master Trust Period Ending June 30, 2019 – AON Release

Appendix "B" to Report FCS19075 – Canadian Defined Benefit Pension Plans Post Modest Gains in Q2 2019 – RBC Investor & Treasury Services Release

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