



Hamilton

INFORMATION REPORT

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| TO: | Chair and Members Audit, Finance and Administration Committee |
| COMMITTEE DATE: | June 18, 2020 |
| SUBJECT/REPORT NO: | Cemetery Trust Accounts Investment Performance Report - December 31, 2019 (FCS20049) (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

Over the 12-month period ending December 31, 2019, the earning rates are 3.12% for the Cemetery Care and Maintenance Trust, 3.39% for the Cemetery Monument Care Trust and 3.23% for the Cemetery Pre-Need Assurance Trust. These earning rates include interest and lending revenue but exclude realized and unrealized capital gains / losses.

Over the same period, the overall returns based on market value (which include interest, lending revenue, realized and unrealized capital gains / losses) are 5.93% for the Cemetery Care and Maintenance, 7.10% for the Cemetery Monument Care and 6.44% for the Cemetery Pre-Need Assurance. The overall return for the benchmark (or Policy return) is 6.87%. As a result, the Cemetery Care and Maintenance under-performed the benchmark by 94 basis points, while the Cemetery Monument Care out-performed the benchmark by 23 basis points. The Cemetery Pre-Need Assurance under-performed the benchmark by 43 basis points.

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.

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As of December 31, 2019, the total portfolio market values are \$13,224,970 (with \$803,681 of net unrealized capital gains) for the Cemetery Care and Maintenance Trust, \$1,228,412 (with \$127,195 of net unrealized capital gains) for the Cemetery Monument Care Trust and \$3,252,248 (with \$238,481 of net unrealized capital gains) for the Cemetery Pre-Need Assurance Trust.

The following Table shows the investment return indicators.

| Investment Return Indicators (for information purposes only) | | | |
|--|----------------------------------|----------------------------------|----------------------------------|
| | 12 Months ended 12/31/2019 | 12 Months ended 12/31/2018 | 12 Months ended 12/31/2017 |
| Earnings Rate (Excluding Unrealized Capital Gains or Loss) | | | |
| Cemetery Care and Maintenance | 3.12% | 1.87% | 3.18% |
| Cemetery Monument Care | 3.39% | 1.49% | 3.52% |
| Cemetery Pre-Need Assurance | 3.23% | 1.59% | 3.36% |
| Total Return | | | |
| Cemetery Care and Maintenance | 5.93% | 1.88% | 2.30% |
| Cemetery Monument Care | 7.10% | 1.49% | 3.29% |
| Cemetery Pre-Need Assurance | 6.44% | 1.59% | 3.01% |
| Policy Target (FTSE TMX Canada Universe Bond) | 6.87% | 1.41% | 2.52% |
| Bond Lending Revenue | | | |
| Cemetery Care and Maintenance | \$ 3,045.37 | \$ 3,032.65 | \$ 3,217.66 |
| Cemetery Monument Care | \$ 338.76 | \$ 320.26 | \$ 198.43 |
| Cemetery Pre-Need Assurance | \$ 743.49 | \$ 691.28 | \$ 405.83 |
| Income Earned* | | | |
| Cemetery Care and Maintenance | \$ 382,712 | \$ 372,106 | \$ 360,609 |
| Cemetery Monument Care | \$ 38,259 | \$ 37,591 | \$ 39,488 |
| Cemetery Pre-Need Assurance | \$ 98,135 | \$ 93,537 | \$ 96,691 |
| Ending Portfolio Market Value | | | |
| Cemetery Care and Maintenance | \$ 13,224,970 | \$ 10,833,356 | \$ 11,143,376 |
| Cemetery Monument Care | \$ 1,228,412 | \$ 957,241 | \$ 1,122,473 |
| Cemetery Pre-Need Assurance | \$ 3,252,248 | \$ 2,542,373 | \$ 2,869,118 |

* Does not include interest earned in the bank account on balances.

The Cemetery Care and Maintenance, Cemetery Monument Care and Cemetery Pre-Need Assurance Trust portfolios out-performed relative to the Policy because they held some long-term bonds which out-performed relative to shorter-term bonds over the one-year period ending December 31, 2019 due to their higher coupon rate. Short-term interest rates stabilized and declined with two Bank of Canada rate cuts in 2019, which created a flat interest curve by year's end and remained flat to the opening 30-day T-bill rate. This created a significant depreciation in short-term bond prices while longer terms tended to be stable or appreciated slightly in value, creating an increase in year-end portfolio market returns and a flat yield curve, with a marginal inversion in the yield curve.

The current strategy is to expect appreciation in longer term rates going forward with stabilization in the 10-year area. The United States has paused in increasing their interest rates with the pause in economic growth and with concerns of a recession due to the very poor growth shown in late 2018 and early 2019. Rates had become negative in some countries and in late January, COVID-19 arrived as a further disruption to the domestic and global economic conditions resulting in emergency cuts in interest rates and a parallel drop in all interest rates embodied in the yield curve.

The portfolios were the benefactors of having longer term bonds with higher interest rates than the current market rates at year end, enabling them to achieve returns which were competitive with the TMX Canada Universe bond index and in one case, exceeding it by 23 basis points (Monument Care) and trailing by 43 basis points (Pre-Need) and 94 basis points (Care and Maintenance) with portfolios comprised of high quality public marketable securities. Going forward, there could be significant re-investment risk. Maturing bonds, new investments and marketability with dramatically dropping interest rates may cause diminished investment returns. The global movement to finance deficits will cause some financial instability theoretically, resulting in a return to near normal.

GB/BT/dt