



INFORMATION REPORT

TO:	Chair and Members HMRF / HWRF Pension Administration Sub-Committee
COMMITTEE DATE:	November 24, 2020
SUBJECT/REPORT NO:	Master Trust Pension Investment Performance Report as at December 31, 2019 (FCS19075(a)) (City Wide)
WARD(S) AFFECTED:	City Wide
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SIGNATURE:	

COUNCIL DIRECTION

Not applicable.

INFORMATION

Attached, as Appendix “A” to Report FCS19075(a), 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 at December 31, 2019. Together, the three pension funds make up the Master Trust, which is referred to as the “Plan” throughout Report FCS19075(a).

As of December 31, 2019, the market value of the assets of the Plan was \$337.5 M, an increase of \$26.0 M compared with \$311.5 M as at December 31, 2018.

For the one-year period ending December 31, 2019, the Plan’s return was 13.8%, underperforming its benchmark return of 16.4% by 2.6%. The benchmark return is based on the benchmark asset mix for the Plan. The Plan return overall of 13.8% outperformed the OMERS (Gross) plan return of 11.9% by 1.9%.

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Table 1 shows the Plan's one-year (ending December 31 in each year) return for the last five years.

**Table 1
Plan's 1 year (ended Dec. 31) Returns**

	12 Months Ended Dec. 31/19	12 Months Ended Dec. 31/18	12 Months Ended Dec. 31/17	12 Months Ended Dec. 31/16	12 Months Ended Dec. 31/15
Plan Return	13.8%	-4.2%	9.5%	9.3%	2.6%
Benchmark	16.4%	-2.6%	8.3%	8.0%	4.2%
Value Added	-2.6%	-1.6%	1.2%	1.3%	-1.6%
Market Value	\$337.5 M	\$311.5 M	\$341.9 M	\$330.3 M	\$320.6 M
Funded Ratio	78.6%	73.4%	75.2%	68.4%	64.8%

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(a), RBC Investor & Treasury Service (I&TS) reports its universe of pension funds, which totals C\$650 B and had an average annual return of 14.0% in the year ended December 31, 2019. The Plan's return of 13.8% underperformed the RBC I&TS annual return by 0.2%. Fixed income and global equity returns were major contributors to the Plan's overall return.

Table 2 compares the Plan's returns to OMERS fund's gross returns over one, five and ten-year periods, all ending December 31, 2019. The Plan's gross returns are less than OMERS for all three periods. This is to be expected due to OMERS strategy of emphasizing private investments and minimizing public securities, which remained stable with generally better returns except in 2019 where OMERS returned 16.4% on capital markets investments.

**Table 2
Annualized Returns**

	Dec.31/19 One-Year Annualized Return	5-Year Annualized Return	10-Year Annualized Return
Plan (HSR, HMRF, HWRF)	13.8%	6.0%	7.5%
Plan Benchmark	16.4%	6.8%	7.6%
OMERS (Gross)	11.9%	8.5%	8.2%
OMERS Benchmark (Gross)	7.5%	N/A	N/A
OMERS Capital Markets	16.4%	N/A	N/A
OMERS Capital Markets Benchmark	6.0%	N/A	N/A

The Plan's ten-year gross annualized return for the period ending December 31, 2019 is 7.5% underperforming the benchmark return of 7.6% by 0.1% and underperforming OMERS return of 8.2% by 0.7%.

The Plan's five-year gross annualized return for the period ending December 31, 2019 is 6.0% underperforming the benchmark return of 6.8% by 0.8% and underperforming OMERS return of 8.5% by 2.5%.

OMERS return in public market securities (OMERS Capital Markets in Table 2) is 16.4% for the one-year ending December 31, 2019. The Plan's gross return for the period ending December 31, 2019 is 13.8% and underperformed OMERS 16.4%. OMERS financial reports in 2019 reported this and confirmed the 2018 estimate at -4.6%.

OMERS invests in public market securities (such as public equities and bonds) and in private market investments (such as private equity, real estate, infrastructure and strategic investments). The Plan invests only in public market securities. Private market investments require expertise developed over many years, have limited liquidity, require significant administrative costs and current valuations may or may not be realized. OMERS gross return included private equity, infrastructure, public securities and real estate which netted a gross return of 11.9% which was reduced from the capital markets return overall of 16.4%.

Asset Mix

Table 3 shows the percentage of Plan assets in each asset class of December 31, 2019 compared to December 31, 2018.

**Table 3
Percentage of Plan Assets in Each Asset Class**

Asset Class	Dec.31, 2019	Dec.31, 2018	Change
Canadian Equity	29.9%	28.3%	+1.6%
Global Equity	<u>21.8%</u>	<u>24.4%</u>	<u>-2.6%</u>
Total Equity	51.7%	52.7%	-1.0%
Canadian Fixed Income	47.8%	46.7%	+1.1%
Cash	0.5%	0.6%	

Note: Anomalies due to rounding.

Total equity decreased by 1.0% to 51.7% and total fixed income increased by a corresponding 1.1% to 47.8%. Global equity decreased by 2.6% to 21.8%. Canadian equity holdings increased by 1.6% to 29.9%. Canadian fixed income increased by 1.1% to 47.8%. The year saw equity returns domestically and internationally in the portfolio ranging from 15.6% to 18.5%. The fixed income portfolios incurred significant gains for the year ranging from 8.4% to 13.0% a 10.8% overall fixed income return holding 25.2% Long bonds and 22.5% Real Return bonds and cash for disbursement.

The Master Trust at year-end was not within its prescribed boundaries set by the Plan's investment policy given the funded ratio at 78.6%. The fund will be rebalanced in 2020.

Managers' Performance

Managers' investment performance relative to their benchmark and peer group is summarized in Table 4. One-year rates of return, percentages of plan assets and rankings in terms of quartile performance are as of December 31, 2019.

**Table 4
Managers' Performance**

	Manager Return	Benchmark Return	Value Added (Manager Return less Benchmark Return)	Percentage Total Assets
Period Ending Dec.31/19				
Canadian Equity:				
Guardian	18.5%	22.9%	-4.4%	13.3%
Letko	15.6%	22.9%	-7.3%	16.6%
Global Equity				
Aberdeen ⁽¹⁾	18.7%	21.4%	-2.7%	4.5%
GMO ⁽²⁾	19.5%	21.4%	-1.9%	17.4%
Fixed Income:				
TDAM Long Bonds ⁽³⁾	13.0%	12.7%	+0.3%	25.2%
TDAM Real Return Bonds	8.4%	8.0%	+0.4%	22.5%

Notes: ⁽¹⁾ Engaged in April 2010

⁽²⁾ Engaged in July 2010

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

Guardian, one of the two Canadian active equity managers, had a return of 18.5% and underperformed its benchmark return of 22.9% by 4.4% an added value of -4.4%. Its performance is fourth quartile (82.0%) over the one-year and third quartile (55%) over the four-year period, with a benchmark return of 10.3% and an actual return of 9.6%. Guardian manages 13.3% of Plan assets and added value of -0.7% over four years.

Letko, the second Canadian active equity manager, had a return of 15.6% and underperformed its benchmark return of 22.9% by 7.3% which is an added value of -7.3%. Its performance is fourth quartile (92%) over the one-year period and second quartile over the four-year period (10.1% and 10.3%, respectively). Letko manages 16.6% of the Plan assets and added value of -0.2% over four years.

Aberdeen is the first active global equity manager. Its return was 18.7% underperforming the benchmark return of 21.4% by 2.7%. Aberdeen's performance is third quartile (61%) over the one-year period and added value of -2.7%. Aberdeen manages 4.4% of the Plan assets. The firm's performance is second quartile (49%) over four years, underperforming the benchmark of 9.4% by -0.2% with a return of 9.2%.

Brandes, was one of three active global equity managers. However, due to both ongoing performance and the fact that the Plan was the last participant in their fund, they were redeemed in June. They managed about 5.6% of the Plan's assets at December 2018 and staff are actively looking to replace them with a less volatile management firm subject to establishing a new asset mix and potentially new investment policy.

GMO is the second active global equity manager as Brandes had been redeemed in the year. GMO's return was 19.5%, underperforming the benchmark return of 21.4% by -1.9%. GMO's performance is third quartile (57%) over the one-year period and added value of -1.9%. GMO manages 17.3% of Plan assets and is third quartile (61%) over four years yet returned 8.6% vs 9.4% benchmark a value added of -0.8%.

TDAM Long Bonds - The active long bond fund manager has 25.2% of the portfolio holdings under management. Performance over one year is a return of 13.0% compared to the benchmark return of 12.7%. This is a second quartile (39%) ranking with an added value of +0.3%. The four-year return was 5.5% compared to the benchmark of 5.5% and an added value of 0.0%.

TDAM Real Return Bonds – The passively managed fund has 22.5% of the portfolio under management and returned 8.4% over the one-year period compared to the benchmark return of 8.0%. Value added was +0.4%.

In summary, the Plan's gross return of 13.8% outperformed OMERS' gross return of 11.9% by 1.9% and its funding ratio increased to 78.6% from last year's 73.4%. However, OMERS Capital Markets return was 16.4% while the Plan's 13.8% return underperformed OMERS comparable return. Through the upcoming year (2020), equities are expected to be emphasized over bonds if interest rates decrease and / or the trigger point of 78.6% changes. All returns were positive and close to their benchmarks with a range of -0.2% to -7.3% contributing to overall positive returns. The highest return was 19.5%(GMO) and the lowest was 8.4% (Real Return Bonds) at year end.

APPENDICES AND SCHEDULES ATTACHED

Appendix "A" to Report FCS19075(a) – The City of Hamilton Master Trust Period Ending December 31, 2019 – AON Performance Review and Investment Manager Evaluation

Appendix "B" to Report FCS19075(a) – Canadian defined pension returns generated second-highest returns in a decade: RBC Investor & Treasury Services Release

GB/dt