

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 June 30, 2020 (FCS20075) (City Wide)
WARD(S) AFFECTED:	City Wide
PREPARED BY:	Gerald T. Boychuk (905) 546-2424 Ext. 4321
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 FCS20075 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, 2020. Together, the three pension funds make up the Master Trust, which is referred to as the “Plan” in Report FCS20075.

The Plan’s return for the one-year period ended June 30, 2020 of 1.3% underperformed its benchmark of 7.1% by 5.8%. The market value of the assets of the Plan totalled \$318.8 M compared to June 30, 2019 of \$336.4 M, a decrease of \$17.6 M.

The funded ratio decreased to 73.0%. Currently, a funding ratio of 73.0% enables a range of 34% to 54% for the Liability Matching Component (LMC) and the fund is at 44.4% (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.

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

	12 Months Ended Jun.30/20	12 Months Ended Jun.30/19	12 Months Ended Jun.30/18	12 Months Ended Jun.30/17	12 Months Ended Jun.30/16
Plan Return	1.3%	4.1%	7.3%	9.0%	3.2%
Benchmark	7.1%	6.4%	7.7%	7.5%	3.8%
Value Added	-5.8%	-2.3%	-0.4%	1.5%	-0.6%
Market Value (\$ Millions)	\$318.8	\$336.4	\$339.9	\$334.3	\$324.4
Funded Ratio	73.0%	76.2%	75.3%	70.3%	64.1%

The Plan's performance may be compared to the return earned in the broader pension market in Canada. Attached as Appendix "B" to Report FCS20075, RBC Investor & Treasury Service reports its universe of pension funds, which totals C\$650 B and a median return of 9.6% in the quarter ended June 30, 2020. The Plan's quarterly return of 11.0% outperformed the universe's median quarterly return of 9.6% by 1.4%.

Asset Mix

Table 2 shows the percentage of Plan assets in each asset class as of June 30, 2020 compared to June 30, 2019.

Table 2
Percentage of Plan Assets in Each Asset Class

Asset Class	Jun.30/20	Jun.30/19	Change	Benchmark
Canadian Equity	27.8%	28.8%	-1.0%	28.0%
Global Equity	<u>27.7%</u>	<u>22.8%</u>	<u>+4.9%</u>	28.0%
Total Equity	55.5%	51.6%	+3.9%	
Canadian Fixed Income	44.4%	48.0%	-3.6%	48.0%
Cash	0.1%	0.5%	-0.4%	

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, 2020.

Table 3
Managers' Performance
One-Year Period Ended Jun. 30/20

	Manager Return	Benchmark Return	Value Added (Manager Return less Benchmark Return)	Percentage Total Assets
Canadian Equity:				
Guardian	-6.5%	-2.2%	-4.3%	13.9%
Letko	-22.0%	-2.2%	-9.1%	13.9%
Global Equity				
Aberdeen ⁽¹⁾	7.2%	6.9%	+0.3%	5.9%
GMO ⁽²⁾	8.2%	6.9%	+1.3%	21.8%
Fixed Income:				
TDAM Long Bonds ⁽³⁾	12.1%	11.7%	+0.4%	25.2%
TDAM Real Return Bonds ⁽³⁾	6.0%	5.5%	+0.5%	19.1%

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

Discussions with OMERS have not presented a solution as costs for assumption were very high and given the current uncertainty not currently workable. Options may include migration to private sector management or to a not-for-profit public facility such as Investment Management Corporation (IMCO). The new entity created, called Investment Management Corporation Ontario, has recently been operational and may offer, in the future, a feasible option and potentially, an option to municipalities specifically under the Prudent Person delegation to municipalities.

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.

Toronto was able to transfer most of their plans to OMERS, while Ottawa was left in the same situation as Hamilton in so far as not being able to come to an agreement. Ottawa is now looking at hiring an outside firm as the Outside Chief Investments Officer (OCIO) to take over their two legacy plans.

The Plan's Future

Staff has been looking to add a new global manager and have narrowed it to four good candidates at a cost of \$15,000. However, given the recent economic problems with COVID-19 and tariffs, supply lines and markets have been restricted due to the uncertainty as to what the future brings. Staff proposes to do an asset mix study to determine the appropriate asset mix given economic conditions worldwide and the appropriate asset mix to match the more current liabilities in the plan. Also, staff would be updating the need to track exposure ranges to meet the goal of an expected wind-up at reasonable cost based on more recent liabilities and expected returns.

APPENDICES AND SCHEDULES ATTACHED

Appendix "A" to Report FCS20075 – City of Hamilton Master Trust Period Ending June 30, 2020 – AON Performance Review and Investment Manager Evaluation

Appendix "B" to Report FCS20075 – Canadian Defined Benefit Pension Plans Post Modest Gains in Q2 2020 – RBC Investor & Treasury Services Release

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