



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

| | |
|---------------------------|--|
| TO: | Chair and Members Audit, Finance and Administration Committee |
| COMMITTEE DATE: | May 20, 2021 |
| SUBJECT/REPORT NO: | Treasurer's Investment Report 2020 Fiscal Year by Aon (FCS21041) (City Wide) |
| WARD(S) AFFECTED: | City Wide |
| PREPARED BY: | Rosaria Morelli (905) 546-2424 Ext. 1390 |
| SUBMITTED BY: | Mike Zegarac General Manager, Finance and Corporate Services Corporate Services Department |
| SIGNATURE: | |

RECOMMENDATION(S)

That Report FCS21041, "Treasurer's Investment Report 2020 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 "City's SIPP"), the Treasurer of the City of Hamilton (General Manager, Finance and Corporate Services) is presenting to Council the City of Hamilton Reserve Funds Treasurer's Investment Report 2020 Fiscal Year (the "Treasurer's Report"), attached as Appendix "A" to Report FCS21041.

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, 2020 and is prepared by Aon on behalf of the Treasurer of the City of Hamilton.

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

Investment Performance of the Funds

Report FCS21042 provides details of the investment performance of the Reserve Fund as at December 31, 2020. Report FCS21043 provides details of the investment performance of the Hamilton Future Fund as at December 31, 2020.

The market rates of return for the 12-month period ending December 31, 2020 were 7.16% for the Reserve Fund and 7.75% for the Hamilton Future Fund. The Reserve Fund outperformed the benchmark rate of return of 5.51% by 1.65%, attributed mostly to its overweight position in longer-dated bonds, which outperformed shorter-dated bonds during the year 2020. The Hamilton Future Fund outperformed the benchmark rate of return of 5.51% by 2.24%, 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"), which is also the City's custodian.

The annual rates of return on average cost for the 12-month period ending December 31, 2020 were 2.32% for the Reserve Fund and 2.53% 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 2020, the City was invested in its own long-term securities, which had a market value of \$6.5 M or a proportion of 0.63% of the total market value of the Reserve Fund as at December 31, 2020. As at December 31, 2019, the proportion was 0.31%.

The increase in proportion from 0.31% to 0.63% is primarily attributed to the purchase, on November 3, 2020, of the fixed income security issued by City of Hamilton with coupon of 1.75%, maturity date of November 3, 2032 and par value of \$3,447,000. This security was issued on November 3, 2020 by the City of Hamilton as part of its serial debenture issuance in 2020: City of Hamilton Issue of \$51,705,000 Debentures Dated November 3, 2020 and Due November 3, 2021 to 2035.

Other than this transaction, the City had no other transactions in or disposals of its own securities during the fiscal year 2020 and the City was not invested in its own short-term securities as was the case during fiscal year 2019.

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 that complies with section 8 (Investment report) of O. Reg. 438/97 and shall contain, but not be limited to, the following information:

- a statement about the performance of the investments for the Funds;
- a listing of the types of securities in which the portfolio invested during the period covered by the report;
- a listing of the securities and their credit ratings held by the portfolio at the date of the report;
- 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 record of the date of each transaction in or disposal of its own securities, including a statement of the purchase and sale of each security;
- 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 statement by the Chief Investments Officer as to whether or not, in his or her opinion all investments are consistent with the investment policies and goals (the City's SIPP) adopted by the City;
- such other information that Council may require or that, in the opinion of the Treasurer, should be included.

The Investment report, prepared by Aon on behalf of the Treasurer, is the Treasurer's Report and is attached as Appendix "A" to Report FCS21041.

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 FCS21041.

ANALYSIS AND RATIONALE FOR RECOMMENDATION

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

The market rates of return for the Reserve Fund and the Hamilton Future Fund are provided by RBCITS. Table 1 includes these performance returns of the Funds along with the benchmark return over each of the quarters of 2020 and over the one-year and three-year periods ending December 31, 2020 as follows:

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

| | Q1 2020 % | Q2 2020 % | Q3 2020 % | Q4 2020 % | 1 Year % | 3 Years % |
|---|-----------------|-----------------|-----------------|-----------------|----------------|-----------------|
| Benchmark | 2.84 | 2.15 | 0.26 | 0.18 | 5.51 | 3.56 |
| Reserve Fund | 2.31 | 3.39 | 0.84 | 0.47 | 7.16 | 4.63 |
| Hamilton Future Fund | 2.37 | 3.78 | 0.83 | 0.59 | 7.75 | 5.03 |
| Reserve Fund Minus Benchmark | -0.53 | 1.24 | 0.58 | 0.29 | 1.65 | 1.07 |
| Hamilton Future Fund Minus Benchmark | -0.47 | 1.63 | 0.57 | 0.41 | 2.24 | 1.47 |

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

**SUBJECT: Treasurer's Investment Report 2020 Fiscal Year by Aon (FCS21041)
(City Wide) – Page 5 of 9**

For the one-year period ending December 31, 2020, the Reserve Fund outperformed the benchmark by 1.65% and the Hamilton Future Fund outperformed the benchmark by 2.24%. The outperformance of the Reserve Fund and of the Hamilton Future Fund is attributed to the overweight position in longer-dated bonds, which outperformed shorter-dated bonds during 2020.

During the year in 2020, interest rates declined dramatically due to the extraordinary monetary policy support by the Bank of Canada in response to the COVID-19 pandemic. The yield on the Government of Canada bond with a term to maturity of 10 years was 1.70% at December 31, 2019, dropped to a low of 0.43% in early August 2020 and was 0.68% on December 31, 2020.

As noted in last year's Treasurer's Report (Report FCS20042 respecting Treasurer's Investment Report 2019 Fiscal Year by Aon) and implemented in last year's Treasurer's Report, Aon has discontinued performing the review and confirmation of performance returns given that RBCITS has been reporting accurate performance historically as confirmed by Aon. This change was implemented because it had been seen that in the Treasurer's Reports prepared by Aon over the last ten years, Aon had reviewed and confirmed, for accuracy, the performance returns calculated by RBCITS. Aon's role in reviewing the performance determined by RBCITS had been intended as a temporary, not permanent, measure.

Types of Securities (Page 5 and Page 6 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 5 and Page 6 of the Treasurer's Report.

Portfolio Securities (Page 7, Page 8, Page 9 and Page 10 of the Treasurer's Report)

As at December 31, 2020, the total market value (including net accruals) of the securities in the Reserve Fund was \$1,027,634,980 of which \$53,374,313 consists of investments in the One Investment Program.

One Investment Program is jointly run by CHUMS (a subsidiary of the Municipal Finance Officers' Association of Ontario) and Local Authority Services (a corporation of the Association of Municipalities of Ontario).

**SUBJECT: Treasurer's Investment Report 2020 Fiscal Year by Aon (FCS21041)
(City Wide) – Page 6 of 9**

As at December 31, 2020, the City held shares with a market value of \$47,687,919 in the One Investment Program Canadian Equity Portfolio and held shares with a market value of \$5,686,393 in the One Investment Program Canadian Corporate Bond Portfolio.

As at December 31, 2020, the total market value (including net accruals) of the securities in the Hamilton Future Fund was \$53,575,031 of which \$1,928,328 consists of investments in the One Investment Program Canadian Equity Portfolio.

During the fiscal year 2020, the City was invested in its own long-term securities, which had a market value of \$6.5 M or a proportion of 0.63% of the total market value of the Reserve Fund as at December 31, 2020. As at December 31, 2019, the proportion was 0.31%.

The increase in proportion from 0.31% to 0.63% is primarily attributed to the purchase, on November 3, 2020, of the fixed income security issued by City of Hamilton with coupon of 1.75%, maturity date of November 3, 2032 and par value of \$3,447,000. This security was issued on November 3, 2020 by the City of Hamilton as part of its serial debenture issuance in 2020: City of Hamilton Issue of \$51,705,000 Debentures Dated November 3, 2020 and Due November 3, 2021 to 2035.

Other than this transaction, the City had no other transactions in or disposals of its own securities during the fiscal year 2020, and the City was not invested in its own short-term securities, as was the case during fiscal year 2019.

Restrictions (Page 11 and Page 12 of the Treasurer's Report)

Table 2, taken from the Treasurer's Report, shows that as at December 31, 2020, 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 with exception of investments specified in Section 4.07 and footnote 6 of Appendix "A" of the SIPP | | 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%

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, 2020

| Issuer or Sector | Reserve Fund | Hamilton Future Fund ² | Combined Maximum Funds | Limit % |
|---|--------------|-----------------------------------|------------------------|---------|
| STIF | 0.0% | 0.8% | 0.0% | N/A |
| Canada | | | | |
| Direct | 1.0% | 0.0% | 1.0% | 100% |
| Guarantee | 7.2% | 0.0% | 6.8% | 25% |
| Provinces | | | | |
| Ontario | 9.2% | 21.8 % | 9.9% | 50% |
| Other (rated AA or higher) | 34.1% | 42.8% | 34.5% | 100% |
| Other (rated A) | 3.7% | 6.5% | 3.8% | 20% |
| Municipalities | | | | |
| Hamilton | 0.7% | 0.0% | 0.7% | 25% |
| Other | 19.2% | 15.5% | 19.0% | 30% |
| Banks and Credit Union | | | | 50% |
| Schedule I | 18.2% | 9.2% | 17.7% | 50% |
| Credit Union | 2.1% | 0.0% | 2.0% | 8% |
| Asset Backed Securities | 0.0% | 0.0% | 0.0% | 25% |
| Corporate 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 | | | | 15% |
| Canadian Equity Portfolio | 4.0% | 3.4% | 4.0% | 10% |
| Canadian Corporate Bond Portfolio | 0.6% | 0.0% | 0.6% | 10% |
| 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.

**SUBJECT: Treasurer's Investment Report 2020 Fiscal Year by Aon (FCS21041)
(City Wide) – Page 9 of 9**

Activity and Transactions (Page 13 of the Treasurer's Report)

During the fiscal year 2020, the total dollar amount of cash inflows for the Reserve Fund were \$171.5 M, consisting of \$90.6 M in sales and maturities, \$27.5 M in investment income and \$53.4 M in contributions / transfers. Cash outflows were also \$171.5 M and consisted of \$26.3 M in purchases and \$145.2 M in distributions.

During the fiscal year 2020, the total dollar amount of cash inflows for the Hamilton Future Fund were \$7.4 M, consisting of \$5.0 M in sales and maturities, \$1.1 M in investment income and \$1.3 M in contributions / transfers. Cash outflows were also \$7.4 M and consisted of \$6.2 M in purchases and \$1.2 M in distributions.

Certificate by Chief Investments Officer (Page 14 of the Treasurer's Report)

The Chief Investments Officer has certified on page 14 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

None.

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" to Report FCS21041 – City of Hamilton – Reserve Funds Treasurer's Investment Report 2020 Fiscal Year

RM/dt