



INFORMATION REPORT

TO:	Chair and Members HMRF / HWRF Pension Administration Sub-Committee
COMMITTEE DATE:	December 1, 2021
SUBJECT/REPORT NO:	Master Trust Pension Investment Performance Report as at December 31, 2020 (FCS20075(a)) (City Wide)
WARD(S) AFFECTED:	City Wide
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SIGNATURE:	

COUNCIL DIRECTION

Not applicable.

INFORMATION

Attached, as Appendix "A" to Report FCS20075(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, 2020. Together, the three pension funds make up the Master Trust, which is referred to as the "Plan" throughout Report FCS20075(a).

As of December 31, 2020, the market value of the assets of the Plan was \$344.0 M, an increase of \$6.5 M compared with \$337.5 M as at December 31, 2019. The funded ratio dropped from 78.6% to 74.9% at year-end due to very low interest rates, lower resource prices and economic outlook.

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For the one-year period ending December 31, 2020, the Plan's return was 8.7%, underperforming its benchmark return of 13.5% by 4.8%. The benchmark return is based on the benchmark asset mix for the Plan. The Plan return overall of 8.7% outperformed the OMERS (Gross) plan return of -2.7% by 11.4%.

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. 31/20	12 Months Ended Dec. 31/19	12 Months Ended Dec. 31/18	12 Months Ended Dec. 31/17	12 Months Ended Dec. 31/16
Plan Return	8.7%	13.8%	-4.2%	9.5%	9.3%
Benchmark	13.5%	16.4%	-2.6%	8.3%	8.0%
Value Added	-4.8%	-2.6%	-1.6%	1.2%	1.3%
Market Value	\$344.0 M	\$337.5 M	\$311.5 M	\$341.9 M	\$330.3 M
Funded Ratio	74.9%	78.6%	75.4%	75.2%	68.4%

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(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 9.2% in the year ended December 31, 2020. The Plan's return of 8.7% underperformed the RBC I&TS average annual return by 0.5%. Fixed income and global equity returns were major contributors to the Plan's overall return and the significant drop in interest rates in early 2020.

Table 2 compares the Plan's returns to OMERS fund's gross returns over one, five and ten-year periods, all ending December 31, 2020. The Plan's gross returns are greater than OMERS gross returns for all three periods. This is unexpected due to OMERS strategy of emphasizing alternative investments and public equity and fixed income securities, which remained stable but generated very poor returns in 2020 where OMERS (Gross) returned negative – 2.7% compared to a 6.9% benchmark for the plan and while capital markets returned -3.1% compared to its benchmark of 5.5%.

**Table 2
Annualized Returns**

	Dec.31/20 One-Year Annualized Return	5-Year Annualized Return	10-Year Annualized Return
Plan (HSR, HMRF, HWRF)	8.7%	7.2%	7.4%
Plan Benchmark	13.5%	8.7%	7.9%
OMERS (Gross)	-2.7%	6.5%	6.7%
OMERS Benchmark (Gross)	6.9%	N/A	N/A
OMERS Capital Markets	-3.1%	N/A	N/A
OMERS Capital Markets Benchmark	5.5%	N/A	N/A

The Plan's ten-year gross annualized return for the period ending December 31, 2020 is 7.4% underperforming the benchmark return of 7.9% by 0.5% and outperforming OMERS return of 6.7% by 0.7%.

The Plan's five-year gross annualized return for the period ending December 31, 2020 is 7.2% underperforming the benchmark return of 8.7% by 1.5% and outperforming OMERS return of 6.5% by 0.7%.

OMERS return in public market securities (OMERS Capital Markets in Table 2) is -3.1% for the one-year ending December 31, 2020. The Plan's gross return for the period ending December 31, 2020 is 8.7% and outperformed OMERS -3.1% by 11.4%. OMERS results are reported in OMERS 2020 financial reports which are available online.

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 -2.7% versus a 6.9% benchmark which was reduced by the capital markets negative return of -3.1% versus a benchmark of 5.5%.

Asset Mix

Table 3 shows the percentage of Plan assets in each asset class of December 31, 2020 compared to December 31, 2019.

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

Asset Class	Dec.31, 2020	Dec.31, 2019	Change
Canadian Equity	29.7%	29.9%	-0.2%
Global Equity	<u>28.4%</u>	<u>21.8%</u>	<u>+6.6%</u>
Total Equity	58.1%	51.7%	+6.4%
Canadian Fixed Income	41.8%	47.8%	-6.0%
Cash	0.1%	0.5%	-0.4%

Note: Anomalies due to rounding.

Total equity increased by 6.4% to 58.1% and total fixed income including cash decreased by a corresponding 6.4% to 47.9%. Global equity increased by 6.6% to 28.4%. Canadian equity holdings decreased by -0.2% to 29.7%. Canadian fixed income decreased by 6.4% to 41.9% including cash. The year saw equity returns domestically and internationally in the portfolio ranging from -3.2% to 14.9%. The fixed income portfolios incurred significant gains for the year ranging from 12.3% to 13.2% a 12.5% overall fixed income return holding 23.0% Long bonds and 18.8% Real Return bonds and cash for disbursement.

The Master Trust at year-end was within its prescribed boundaries set by the Plan's investment policy given the funded ratio at 74.9% (58.1% equity and 41.8% fixed income).

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, 2020.

**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	4.5%	5.6%	-1.1%	14.9%
Letko	-3.2%	5.6%	-8.8%	14.8%
Global Equity				
Aberdeen ⁽¹⁾	14.9%	13.9%	1.0%	6.4%
GMO ⁽²⁾	7.7%	13.9%	-6.2%	22.0%
Fixed Income:				
TDAM Long Bonds ⁽³⁾	12.3%	11.9%	+0.4%	23.0%
TDAM Real Return Bonds	13.2%	13.0%	+0.2%	18.8%

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 4.5% and underperformed its benchmark return of 5.6% by 1.1% an added value of -1.1%. Its performance is second quartile (47.0%) over the one-year and second quartile (39%) over the four-year period, with a benchmark return of 6.6% and an actual return of 6.3%. Guardian manages 14.9% of Plan assets and added value of -0.3% over four years.

Letko, the second Canadian active equity manager, had a return of -3.2% and underperformed its benchmark return of 5.6% by 8.8% which is an added value of -8.8%. Its performance is fourth quartile (95%) over the one-year period and fourth quartile over the four-year period (90.0%) with an actual return of 2.6% with a benchmark return of 6.6% and an added value of -4.0% over four years. Letko manages 14.8% of the Plan assets.

Aberdeen is a global equity manager. Its return was 14.9% exceeding the benchmark return of 13.9% by 1.0%. Aberdeen's performance is second quartile (42%) over the one-year period and added value of 1.0%. Aberdeen manages 6.4% of the Plan assets. The firm's performance is second quartile (50%) over four years, underperforming the benchmark of 12.0% by -0.4% with a return of 11.6%.

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GMO is the second active global equity manager. GMO's return was 7.7%, underperforming the benchmark return of 13.9% by 6.2%. GMO's performance is third quartile (62%) over the one-year period and added value of -6.2%. GMO manages 22% of Plan assets and is third quartile (61%) over four years returning 9.5% vs 12.0% benchmark a value added of -2.5%.

TDAM Long Bonds – The active long bond fund manager has 23% of the portfolio holdings under management. Performance over one year is a return of 12.3% compared to the benchmark return of 11.9% which is a value added of 0.4%. The four-year return was 7.9% compared to the benchmark of 7.9% and an added value of 0.0%.

TDAM Real Return Bonds – The passively managed fund has 18.8% of the portfolio under management and returned 13.2% over the one-year period compared to the benchmark return of 13.0%. Value added was +0.2%. The four-year return was 5.3% compared to the benchmark of 5.3% an added value of 0.0%.

In summary, the Plan's gross return of 8.7% outperformed OMERS' gross return -2.7% by 11.4% and its funding ratio decreased to 74.9% from last year's 78.6%. However, OMERS Capital Markets return was -3.1% while the Plan's 8.7% return outperformed OMERS comparable return. Through the upcoming year (2021), equities are expected to be emphasized over bonds if interest rates decrease and / or the trigger point of 74.9% changes. All returns were positive and close to their benchmarks with a range of -3.2% to 14.9% contributing to overall positive returns. The highest return was 14.9%(GMO) and the lowest was -3.2% (Letko) at year end.

APPENDICES AND SCHEDULES ATTACHED

Appendix "A" to Report FCS20075(a) – The City of Hamilton Master Trust Period Ending December 31, 2020 – AON Performance Review and Investment Manager Evaluation

Appendix "B" to Report FCS20075(a) – Canadian Defined Pension plans post near-double-digit returns despite historic, turbulent year; RBC Investor & Treasury Services

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