



Hamilton

# INFORMATION REPORT

<b>TO:</b>	Chair and Members Audit, Finance and Administration Committee
<b>COMMITTEE DATE:</b>	May 19, 2022
<b>SUBJECT/REPORT NO:</b>	Reserve / Revenue Fund Investment Performance Report – December 31, 2021 (FCS22032) (City Wide)
<b>WARD(S) AFFECTED:</b>	City Wide
<b>PREPARED BY:</b>	Gerald T. Boychuk (905) 546-2424 Ext. 4321 Brandon A. Teglas (905) 546-2424 Ext. 4363
<b>SUBMITTED BY:</b>	Brian McMullen Director, Financial Planning, Administration and Policy Corporate Services Department
<b>SIGNATURE:</b>	

## COUNCIL DIRECTION

Not Applicable.

## INFORMATION

The investment portfolio for the City of Hamilton's (City's) Reserve / Revenue Fund (comprised of reserve / revenue funds, capital account balances and unused operating funds) had an earnings rate of 2.95% for the 12 months ending December 31, 2021 and had an average earnings rate of 2.82% over the past five years. The earnings rate includes interest and bond lending revenues but excludes realized and unrealized capital gains / losses.

The City's portfolio generated \$35,474,927 in bond interest, net realized capital gains / losses, bond lending revenue and bank interest over the 12 months ending December 31, 2021. The average dollar amount generated over the last five years is \$30.72 M. The return of \$35,474,927 was realized on an average asset cost of \$1,459,726,044 (made up of \$961,345,174 for the investment portfolio, \$445,984,575 for the City's bank account balance, plus \$46,758,845 for the One Fund Equity and \$5,637,450 for the Universe Corporate Bond), giving a percentage return on cost of 2.43%. Bond lending revenues of \$336,417 are included in the earnings rate of 2.95%. Net unrealized capital gains were \$45,941,081 as at December 31, 2021.

---

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.

**SUBJECT: Reserve / Revenue Fund Investment Performance Report –  
December 31, 2021 (FCS22032) (City Wide) – Page 2 of 4**

---

For the 12 months ending December 31, 2021, the overall return (includes bond interest, bond lending revenues, realized capital gains / losses and unrealized capital gains / losses) was -0.57% and the return on the benchmark was -1.49%, resulting in an out-performance of 92 basis points. Over the past five years, the overall return has averaged 2.93% per annum, out-performing the average return on the benchmark over the same five-year period of 1.93% by 100 basis points. For the one-year period ending December 31, 2021, the out-performance of the investment portfolio relative to the benchmark is attributed to its longer duration, resulting in mid-term and long-term bonds outperforming short-term bonds.

By comparison, the overall returns for the One Fund portfolios (offered by the Association of Municipalities of Ontario and the Municipal Finance Officers' Association), over the 12-month period ending December 31, 2021 were -1.44% for bonds and 0.04% for money market. If the City's Policy had been used in these funds (i.e. 90% bonds and 10% money market), then the overall return would have been 0.72% less than the actual return of -0.57% or -1.29%. On an average portfolio market value of \$1,084 M (excluding One Fund Equity and bank account balances), the incremental return of 0.72% resulted in incremental revenue of approximately \$7.86 M. The One Fund's under-performance is attributed to its policy of investing in short-term bonds. The FTSE TMX Short Government Index returned -1.12% while the FTSE TMX All-Government Mid Index returned -3.07%.

Table 1 summarizes the investment return indicators.

**Table 1 - Investment Return Indicators (for information purposes only)**

	12 Months ended 12/31/2021	12 Months ended 12/31/2020	12 Months ended 12/31/2019	12 Months ended 12/31/2018	12 Months ended 12/31/2017
Policy Target	-1.49%	5.51%	3.42%	1.79%	0.42%
City's Portfolio	-0.57%	7.16%	4.97%	1.82%	1.29%
One Fund – Bonds	-1.44%	5.29%	2.61%	-1.51%	-0.15%
One Fund – Money Market	0.04%	0.85%	1.68%	1.43%	0.60%
FTSE TMX – Short Government	-1.12%	4.85%	2.40%	1.96%	-0.38%
FTSE TMX – Mid Government	-3.07%	9.69%	4.92%	2.12%	0.46%
Bond Lending Revenue	\$336,417	\$262,239	\$322,520	\$284,474	\$231,169
Portfolio Earnings Rate (Excludes Capital Gains / Losses)	2.95%	2.71%	2.80%	2.85%	2.79%
Portfolio and Bank Earnings Rate (Excludes Capital Gains / Losses)	2.43%	2.32%	2.78%	2.67%	2.57%
Return One Fund Investment (Equity)	33.56%	19.56%	18.53%	2.24%	9.85%

---

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.

The investments in the portfolio, excluding the One Fund Equity investment, consist of 100% bonds and 0% money market. During the year ending December 31, 2021, the interest rate earned in the City's bank account was greater than the interest rate earned on Treasury Bills and Banker's Acceptances (with term to maturity less than five years) and therefore, funds that were earmarked for short-term expenses were held in the City's bank account at 0.65% crediting rate, as compared to the overnight rate of 0.25% or lower. As at December 31, 2021, the duration of the portfolio was 4.97 years compared with 4.04 years as at December 31, 2020.

On December 31, 2021, the market value of the investment portfolio was \$1,088,764,818 (excluding One Fund Equity and bank balances), an increase of \$110,369,875 compared to \$978,394,943 on December 31, 2020.

As at December 31, 2021, the One Fund equity holdings market value was \$78.494 M (or 7.21% of the market value of the Reserve Fund including the One Fund but excluding bank balances). Over the 12-month period ending December 31, 2021, the City's investment in the One Fund returned 33.56%.

Table 2 shows the changes in Canadian interest rates over the past 24 months.

**Table 2 – Canadian Interest Rates**

Canada Benchmark Bond	January 4, 2022	January 4, 2021	January 2, 2020
One Month (T-Bill)	0.08%	0.04%	1.63%
2 year	1.01%	0.20%	1.66%
5 year	1.39%	0.39%	1.62%
10 year	1.59%	0.68%	1.62%

As can be seen in Table 2, interest rates increased through 2021 for all terms up to 10 years. The increase in rates ranged from 0.04% in the one month (T-Bill) to 0.91% in the 10-year bond. These are historically low rates and were expected to be the normal for a year or so depending upon COVID-19 and international relations.

In 2020, the Bank of Canada dropped the central bank rate four times to a low of 0.25% and remained stable in 2021. The rates at year's end in all maturities were at historic lows. Currency values generally decline when rates decline but the Canadian Dollar and US Dollar exchange rate started at approximately \$1.27 and dropped to \$1.26 at year end. Oil started the year at \$48 US per barrel and finished the year at \$77 US per barrel.

The GDP rate growth forecast of 1.6% was not achieved for the year. It has been confirmed as an actual -5.4% for 2020 due to a bad last quarter, which was expected at that time. The actual was rectified in the last half of 2021 ending with a +4.6% GDP number. Growth is forecast to improve above +4.0% and gradually decline if COVID-19 and variants are ultimately controlled. The expectation is for a significant boost in consumption and inflation.

---

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.

**SUBJECT: Reserve / Revenue Fund Investment Performance Report –  
December 31, 2021 (FCS22032) (City Wide) – Page 4 of 4**

---

The Reserve Fund portfolio has significant holdings of high-quality securities. The Fund out-performed its benchmark by 92bps (0.92%) by returning -0.57% through 2021. As a strategy going forward, the assumptions are that the economy will recover, COVID-19 will be controlled, a new normal will arrive but not immediately and interest rates will rise.

GB/BT/dt