



INFORMATION REPORT

TO:	Chair and Members Audit, Finance and Administration Committee
COMMITTEE DATE:	June 18, 2020
SUBJECT/REPORT NO:	Hamilton Future Fund Investment Performance Report - December 31, 2019 (FCS20047) (City Wide)
WARD(S) AFFECTED:	City Wide
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SIGNATURE:	

COUNCIL DIRECTION

Not applicable

INFORMATION

The City of Hamilton Future Fund portfolio of investments had an earnings rate of 2.58% for the 12 months ending December 31, 2019 and an average earnings rate of 2.60% over the past five years. The earnings rate includes interest and lending revenues but excludes realized and unrealized capital gains / losses.

The City of Hamilton Future Fund's portfolio generated approximately \$1,250,274 in bond interest, net realized capital gains / losses and lending revenue over the last 12 months ending December 31, 2019. The total return of \$1,250,274 was realized on an investment at an average cost of \$46,073,113, giving a percentage return on cost of 2.71%. Bond lending revenues of \$18,094 are included in the earnings rate of 2.58%. Interest, net realized capital gains / losses and lending income over the last five years have averaged \$1.09 M annually.

As at December 31, 2019, net unrealized capital gain was \$1,139,948 and a net capital loss of \$1,935 was realized over the past 12 months. The duration of the portfolio of investments was 5.41 years as at December 31, 2019 compared with 5.69 years as at December 31, 2018.

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As of December 31, 2019, the market value of the portfolio was \$48,113,985 compared with \$45,629,304 as at December 31, 2018, an increase of \$2,484,681.

For the 12 months ending December 31, 2019, the overall return (includes interest, bond lending revenue, realized and unrealized capital gains / losses) was 5.47%, outperforming the benchmark return of 3.42% by 205 basis points. Over the past five years, the overall return has averaged 2.62% per annum, outperforming the average benchmark return over the same five-year period of 1.77% by 85 basis points. The out-performance of the Hamilton Future Fund relative to the benchmark over the last five years is attributed mostly to its overweight position over the last couple of years in longer term bonds.

The overall returns for the One Fund (offered by the Association of Municipalities of Ontario and the Municipal Finance Officers Association) for the year ending December 31, 2019 was 18.3% for the Equity Portfolio, 1.68% for bonds and 2.61% for money market. If the City's Policy had been used in these funds (i.e. 90% bonds and 10% money market), the overall return would have been 1.77% or 370 basis points less than the overall return of 5.47%. Using an average portfolio market value of \$47,675,120 for the past 12 months, an increase of 3.70% in overall return resulted in a revenue increase of approximately \$1,763,979. The FTSE TMX Mid-Government Index returned 4.92% and the FTSE TMX Short Government Index returned 2.40%.

Table 1 summarizes the investment return indicators.

Table 1: Investment Return Indicators (for information purposes only)

	12 Months ended 12/31/2019	12 Months ended 12/31/2018	12 Months ended 12/31/2017	12 Months ended 12/31/2016	12 Months ended 12/31/2015
Policy Target	3.42%	1.79%	0.42%	0.52%	2.72%
Hamilton Future Fund Portfolio	5.47%	1.95%	1.50%	1.61%	2.57%
One Fund – Bonds	1.68%	1.51%	-0.15%	0.68%	1.94%
One Fund –Money Market	2.61%	1.43%	0.60%	0.50%	0.67%
FTSE TMX – Short Government	2.40%	1.96%	-0.38%	0.35%	2.54%
FTSE TMX – Mid Government	4.92%	2.12%	0.46%	0.87%	5.11%
Bond Lending Revenue	\$18,094	\$14,128	\$9,479	\$6,071	\$5,252
Earnings Rate (Excludes Capital Gains / Losses)	2.58%	2.62%	2.55%	2.66%	2.61%

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

Table 2: Canadian Interest Rates

Canada Benchmark Bond	Interest Rate January 2, 2020	Interest Rate January 2, 2019	Interest Rate January 3, 2018
One Month (T-Bill)	1.63%	1.63%	0.95%
2-year	1.66%	1.86%	1.68%
5-year	1.62%	1.85%	1.86%
10-year	1.62%	1.92%	2.05%

One-month T-Bills remained stable through 2019 as demonstrated by Table 2 at 1.63%. Ten-year and 30-year bonds continued a steady decline in rate and increased price as in 2018, resulting in a virtually flat or slightly inverted yield curve. The Canadian dollar remained stable opening at 0.745\$ US and closing 2019 at slightly less than 0.770\$ US. While oil opened at \$65 US per barrel, the year-end market had a drop to \$61 US per barrel due to global trade uncertainty, increasing competition by suppliers and slowing demand. The Canadian Gross Domestic Product (GDP) was expected to stay at about 1.6% annual in 2019 and into 2020.

The Future Fund portfolio of bonds was maintained with significant holding of near 10-year terms of high-quality provincials, municipals and major banks. The portfolio out-performed its benchmark and the One Fund's estimated returns by a wide margin. The portfolio, as it stands, is in very good shape. However, at this writing, going forward there is significant re-investment risk in terms of lower rates, liquidity and debt issuance.

Maturing holdings, new investments and marketability risk with dramatically dropping interest rates will cause diminished investment returns. The global movement to financed deficits will cause some financial instability due to the worldwide suspension of global trade and internal economic trade coming to a standstill due to COVID-19 Pandemic. Results could be inflationary to a degree. However, a return to near normal economic conditions is theoretically the goal.

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