



INFORMATION REPORT

TO:	Chair and Members Audit, Finance and Administration Committee
COMMITTEE DATE:	May 20, 2021
SUBJECT/REPORT NO:	Hamilton Future Fund Investment Performance Report – December 31, 2020 (FCS21043) (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 2.43% for the 12 months ending December 31, 2020 and an average earnings rate of 2.57% 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 \$1,231,573 in bond interest, net realized capital gains / losses and lending revenue over the last 12 months ending December 31, 2020. The total return of \$1,231,573 was realized on an investment at an average cost of \$48,693,441, giving a percentage return on cost of 2.53%. Bond lending revenues of \$10,738 are included in the earnings rate of 2.43%. Interest, net realized capital gains / losses and lending income over the last five years have averaged \$1.14 million annually.

As at December 31, 2020, net unrealized capital gain was \$3,646,858 and a net capital loss of \$7,567 was realized over the past 12 months. The duration of the portfolio of investments was 4.72 years as at December 31, 2020 compared with 5.41 years as at December 31, 2019.

**SUBJECT: Hamilton Future Fund Investment Performance Report –
December 31, 2020 (FCS21043) (City Wide) – Page 2 of 3**

As of December 31, 2020, the market value of the portfolio was \$51,831,393 compared with \$48,113,985 as at December 31, 2019, an increase of \$3,717,408.

For the 12 months ending December 31, 2020, the overall return (includes interest, bond lending revenue, realized and unrealized capital gains / losses) was 7.75%, outperforming the benchmark return of 5.51% by 224 basis points. Over the past five years, the overall return has averaged 3.66% per annum, outperforming the average benchmark return over the same five-year period of 2.33% by 133 basis points. The outperformance 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, 2020 was 14.73% for the Equity Portfolio, 5.29% for bonds and 0.85% 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 4.84% or 291 basis points less than the overall return of 7.75%. Using an average portfolio market value of \$50,772,109 for the past 12 months, an increase of 2.91% in overall return resulted in a revenue increase of approximately \$1,477,468. The FTSE TMX Mid-Government Index returned 9.69% and the FTSE TMX Short Government Index returned 4.85%.

Table 1 summarizes the investment return indicators.

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

	12 Months ended 12/31/2020	12 Months ended 12/31/2019	12 Months ended 12/31/2018	12 Months ended 12/31/2017	12 Months ended 12/31/2016
Policy Target	5.51%	3.42%	1.79%	0.42%	0.52%
Hamilton Future Fund Portfolio	7.75%	5.47%	1.95%	1.50%	1.61%
One Fund – Bonds	5.29%	1.68%	1.51%	-0.15%	0.68%
One Fund – Money Mkt.	0.85%	2.61%	1.43%	0.60%	0.50%
FTSE TMX – Short Government	4.85%	2.40%	1.96%	-0.38%	0.35%
FTSE TMX – Mid Government	9.69%	4.92%	2.12%	0.46%	0.87%
Bond Lending Revenue	\$10,738	\$18,094	\$14,128	\$9,479	\$6,071
Earnings Rate (Excludes Capital Gains / Losses)	2.43%	2.58%	2.62%	2.55%	2.66%

**SUBJECT: Hamilton Future Fund Investment Performance Report –
December 31, 2020 (FCS21043) (City Wide) – Page 3 of 3**

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 4, 2021	Interest Rate January 2, 2020	Interest Rate January 2, 2019
One Month (T-Bill)	0.04%	1.63%	1.63%
2 year	0.20%	1.66%	1.86%
5 year	0.39%	1.62%	1.85%
10 year	0.68%	1.62%	1.92%

As can be seen in Table 2, interest rates declined precipitously through 2020 for all terms up to 10 years. The decline in rates ranged from 1.59% in the one month (T-bill) to a low of 0.94% in the 10-year bond. These are historically low rates and are expected to be the norm for a year or so depending upon recovery from the COVID-19 pandemic and international relations.

In the month of March, the Bank of Canada dropped the central bank rate four times to a low of 0.25%. The rates at year's end in all maturities were at historic lows. Currency values generally decline when rates decline but the exchange rate of US Dollars (USD) to Canadian Dollars (CAD) started 2020 at approximately \$1.29 and dropped to \$1.27 at year end 2020. Oil dropped to below \$40 US per barrel in May and moved to single digit lows in the period to early June, finishing the year at \$52 US per barrel.

The Gross Domestic Product (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 is expected at this time to be rectified in the last half of 2021. GDP growth is forecast to improve about +4.0% if COVID-19 and variants are ultimately controlled. The expectation is for a significant boost in consumption.

The Future Fund portfolio of securities has significant holdings of high-quality securities. The Fund outperformed its benchmark by 224 bps (2.24%) by returning 7.75% through 2020. 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