



INFORMATION REPORT

TO:	Chair and Members Audit, Finance and Administration Committee
COMMITTEE DATE:	May 19, 2022
SUBJECT/REPORT NO:	Hamilton Future Fund Investment Performance Report – December 31, 2021 (FCS22033) (City Wide)
WARD(S) AFFECTED:	City Wide
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COUNCIL DIRECTION

Not Applicable.

INFORMATION

The City of Hamilton Future Fund portfolio of investments had an earnings rate of 2.60% for the 12 months ending December 31, 2021 and an average earnings rate of 2.56% 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 \$1,378,448 in bond interest, net realized capital gains / losses and bond lending revenue over the last 12 months ending December 31, 2021. The total return of \$1,378,448 was realized on an investment at an average cost of \$49,988,499, giving a percentage return on cost of 2.76%. Interest, net realized capital gains / losses and bond lending income over the last five years have averaged \$1.24 M annually.

As at December 31, 2021, net unrealized capital gain of \$1,617,064 and a net capital loss of \$7,418 were recorded over the past 12 months. The duration of the portfolio of investments was 4.32 years as at December 31, 2021 compared with 4.72 years as at December 31, 2020.

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As of December 31, 2021, the market value of the portfolio was \$53,345,292 compared to \$51,831,393 as at December 31, 2020, an increase of \$1,513,899.

For the 12 months ending December 31, 2021, the overall return (includes interest, bond lending revenue, realized and unrealized capital gains / losses) was -1.25%, out-performing the benchmark return of -1.49% by 24 basis points. Over the past five years, the overall return has averaged 3.08% per annum, out-performing the average benchmark return over the same five-year period of 1.93% by 115 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, 2021 was 39.84% for the Equity Portfolio, -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), the overall return would have been -1.29% or four basis points lower than the overall return of -1.25%. Using an average portfolio market value of \$46,789,056 for the past 12 months, a decrease of 0.04% in overall return resulted in a revenue decrease of approximately \$18,715. The FTSE TMX Mid-Government Index returned -3.07% and the FTSE TMX Short Government Index returned -1.12%.

Table 1 below 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%
Hamilton Future Fund Portfolio	-1.25%	7.75%	5.47%	1.95%	1.50%
One Fund – Bonds	-1.44%	5.29%	1.68%	1.51%	-0.15%
One Fund – Money Mkt.	0.04%	0.85%	2.61%	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	\$13,623	\$10,738	\$18,094	\$14,128	\$9,479
Earnings Rate (Excludes Capital Gains / Losses)	2.60%	2.43%	2.58%	2.62%	2.55%

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

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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 exchange rate of US Dollars (USD) to Canadian Dollars (CAD) 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.

The Future Fund portfolio has significant holdings of high-quality securities. The Fund out-performed its benchmark by 24bps (0.24%) by returning -1.25% 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.

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